

OFFICIAL STATEMENT
Dated: November 10, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein.

The District has designated the Bonds as “Qualified Tax-Exempt Obligations.”
See “TAX MATTERS – Qualified Tax-Exempt Obligations For Financial Institutions.”

\$1,780,000
LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
(Bowie County, Texas)
Unlimited Tax Refunding Bonds, Series 2020

Dated Date: November 15, 2020
(Interest accrues from Delivery Date)

Due: February 15, as shown on page ii

The Liberty-Eylau Independent School District (the “District”) is issuing \$1,780,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and a bond order (the “Bond Order”) adopted by the Board of Trustees of the District on October 15, 2020 in which the District delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved a “Pricing Certificate” which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”). The Bonds constitute direct obligations of the District and 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 payment of the Bonds to be additionally guaranteed by the corpus of the Permanent School Fund of the State of Texas, which guarantee will automatically become effective upon the Texas Attorney General’s approval of the Bonds (see “THE BONDS – Permanent School Fund Guarantee” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Interest on the Bonds will accrue from the date they are initially delivered (the “Delivery Date”) to the initial purchaser thereof named below (the “Underwriter”) and will be payable on February 15 and August 15 each year, commencing February 15, 2021, until stated maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest accruing on the Bonds will be calculated on the basis of 360-day year of twelve 30-day months.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company (“DTC”), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Dallas, Texas, as the initial Paying Agent/Registrar (the “Paying Agent/Registrar”) for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see “BOOK-ENTRY-ONLY SYSTEM”).

The Bonds maturing on February 15, 2031 are subject to optional redemption prior to stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”).

Proceeds from the sale of the Bonds will be used to provide funds sufficient to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) and to pay costs of issuance related to the Bonds (see “THE BONDS - Authorization and Purpose” and “SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED”). The refunding is being undertaken to lower the District’s debt service and will result in a present value savings to the district.

CUSIP PREFIX: 530468
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approval of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about December 15, 2020.

SAMCO Capital Markets, Inc.

MATURITY SCHEDULE

\$1,780,000
UNLIMITED TAX REFUNDING BONDS,
SERIES 2020^(b)

Maturity Date (2/15)	Principal Amount	Interest Rate	Initial Reoffering Yield	CUSIP Suffix^(a)
2021	\$25,000	3.000%	0.380%	GE1
2022	150,000	3.000%	0.390%	GF8
2023	155,000	3.000%	0.430%	GG6
2024	160,000	3.000%	0.460%	GH4
2025	165,000	3.000%	0.510%	GJ0
2026	170,000	3.000%	0.640%	GK7
2027	180,000	3.000%	0.750%	GL5
2028	180,000	3.000%	0.870%	GM3
2029	185,000	3.000%	1.000%	GN1
2030	200,000	3.000%	1.120%	GP6
2031	210,000	3.000%	1.260% ^(c)	GQ4

(Interest to Accrue From the Delivery Date)

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is included solely for the convenience of the registered owners of the Bonds, 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 Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(b) The Bonds maturing on February 15, 2031 are subject to optional redemption prior to stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Redemption Provisions").

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Trevelyan Hodge, President	2022	Senior Human Resources Supervisor
Scott Bergt, Vice President	2022	Sales Supervisor
Brad Haugh, Secretary	2021	Sales Supervisor
Debbie Courtney, Member	2022	Retired Teacher
Becky Fellers, Member	2022	Retired Teacher
James Keeton, Member	2022	Realtor
Chad Turner, Member	2022	Texas Highway Patrol, Trooper

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Ronnie Thompson	Superintendent
Frank Rougeau	Business Manager

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP Dallas, Texas	Bond Counsel
RBC Capital Markets, LLC Dallas, Texas	Financial Advisor
Thomas & Thomas, LLP Texarkana, Texas	Independent Auditor

FOR ADDITIONAL INFORMATION PLEASE CONTACT:

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Liberty-Eylau Independent School District
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RBC Capital Markets, LLC
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Dallas, Texas 75204-7839
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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other 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, the Financial Advisor or the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction 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 or solicitation.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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, the Financial Advisor or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only system or the affairs of the Texas Education Agency described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”

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

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 THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND 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.

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The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and the Schedule and Appendices attached hereto are part of this Official Statement.

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 Issuer	Liberty-Eylau Independent School District (the “District”) is a political subdivision located in Bowie 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. For more information regarding the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
Authority for Issuance and Use of Proceeds	The District’s Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are being issued in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207 of the Texas Government Code, as amended, and an order (the “Bond Order”) passed by the Board of Trustees of the District (the “Board”). In the Bond Order, the Board delegated to certain officials of the District, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds through the execution of a “Pricing Certificate”, which contains the final terms of sale (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”). Proceeds from the sale of the Bonds will be used to provide funds sufficient to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) and to pay costs of issuance related to the Bonds (see “THE BONDS - Authorization and Purpose” and “SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED”). The refunding is being undertaken to lower the District’s debt service and will result in a present value savings to the District.
Payment of Interest	Interest on the Bonds will accrue from the date of their initial delivery (the “Delivery Date”) to the Underwriter and will be payable semiannually on February 15 and August 15 of each year, commencing February 15, 2021, until maturity or prior redemption (see “THE BONDS – General Description”).
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company (see “BOOK-ENTRY-ONLY SYSTEM”).
Security	The Bonds 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 limit as to rate or amount (see “THE BONDS – Security”). The District has received conditional approval from the Texas Education Agency for payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas, which guarantee will automatically become effective upon the Texas Attorney General’s approval of the Bonds (see “THE BONDS – Permanent School Fund Guarantee” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”; also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State).
Redemption Provisions	The Bonds maturing on February 15, 2031 are subject to optional redemption prior to stated maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption as further described herein (see “THE BONDS – Redemption Provisions”).
Ratings	S&P Global Ratings (“S&P”) has assigned a bond rating of “AAA” to the Bonds based upon the Permanent School Fund Guarantee. The District’s underlying rating for the Bonds and its other unlimited tax-supported indebtedness (without consideration of the Permanent School Fund Guarantee) is “A+” by S&P (see “RATINGS”).

Tax Exemption	In the opinion of Bond Counsel, interest on the Bonds will be excludable from the gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of the owners thereof. See “TAX MATTERS” herein for a discussion of the opinion of Bond Counsel.
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “Qualified Tax-Exempt Obligations” for the purpose of the calculation of interest expense by financial institutions which may own the Bonds (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “Book-Entry-Only System”).
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	The issuance of the Bonds is subject to the approving opinion of the Texas Attorney General and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas.

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\$1,780,000
LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
(Bowie County, Texas)
Unlimited Tax Refunding Bonds, Series 2020

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and Appendices A and B, has been prepared by the Liberty-Eylau Independent School District located in Bowie County, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) identified on the cover page 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 (see “FORWARD LOOKING STATEMENTS”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement will be deposited by the Underwriter with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency and the District, respectively, to provide certain information on a continuing basis.

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Bowie County, also declared a local state of disaster. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a series of executive orders relating to COVID-19 preparedness and mitigation. Due to a recent spike in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor’s discretion. 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. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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, administrative and extracurricular activities, school visits, 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 2020-2021 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 District is offering in-person instruction as well as a virtual option for families who choose to not return for in-person instruction.

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available, but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. 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 in which the PSF is invested. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

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.

For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak".

THE BONDS

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207 of the Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order"). In the Bond Order, the Board delegated to certain officials of the District, pursuant to certain provisions of Chapter 1207 of the Texas Government Code, as amended, authority to complete the sale of the Bonds through the execution of a "Pricing Certificate", which contains the final terms of sale (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

The Bonds will be issued to provide funds sufficient to refund a portion of the District's outstanding bonds (the "Refunded Bonds") and to pay costs of issuance related to the Bonds. See "THE BONDS - Refunded Bonds" and "SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED" for a more complete description of the Refunded Bonds. The refunding is being undertaken to lower the District's debt service and will result in a present value savings to the District.

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on the scheduled interest payment dates and the redemption date as printed in Schedule I (the "Redemption Date") from funds to be deposited with UMB Bank, N.A., Dallas, Texas (the "Escrow Agent") pursuant to a special escrow agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the underwriter shown on the cover page of this Official Statement (the “Underwriter”) and other available District funds, the District will deposit with the Escrow Agent an amount sufficient to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and held in cash uninvested or will be invested in Defeasance Securities authorized by Section 1207.062 Texas Government Code and the bond order authorizing the Refunded Bonds. RBC Capital Markets, LLC, in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited into the Escrow Fund, without regard to investment (if any) to pay the principal of and interest on the Refunded Bonds, when due (the “Sufficiency Certificate”). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in obligations of some or all of the following types: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, were rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, were rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such defeasance and in reliance upon the Sufficiency Certificate, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash and/or Escrowed Securities held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the orders authorizing their issuance or for any other purpose. The District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrowed Securities. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

General Description

The Bonds shall be dated November 15, 2020 and are to mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of their initial delivery (the “Delivery Date”) to the Underwriter at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof semiannually on February 15 and August 15 in each year, commencing February 15, 2021, and thereafter until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of 360-day year of twelve 30-day months. The paying agent and transfer agent (the “Paying Agent/Registrar”) for the Bonds is initially UMB Bank, N.A., Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” for a more complete description of such system.

Interest on the Bonds is payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar (the “Register”) at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on the Register or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The Record Date is the last business day of the month next preceding such interest payment date except for the initial interest payment date (the record date for which shall be the Delivery Date) (see “REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment”). The principal of the Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon stated maturity or prior redemption, as applicable.

Redemption Provisions

The Bonds maturing on February 15, 2031 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption

If less than all of the Bonds within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof, to be redeemed.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the owners of the Bonds to be redeemed at the address of the owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Business Day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE DISTRICT IN THE NOTICE, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see "BOOK-ENTRY-ONLY SYSTEM").

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied, without limit as to rate or amount, on all taxable property within the District as provided in the Order (see "TAX RATE LIMITATIONS"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education for the payment of the Bonds to be guaranteed under the Guarantee Program of the Permanent School Fund of Texas (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State in accordance with the terms of the Guarantee Program for School District Bonds. In the event of default, 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 (see "THE BONDS – Defeasance").

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the legal opinion of Norton Rose Fulbright US LLP of Dallas, Texas, Bond Counsel (see "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

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

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

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

Amendments to the Order

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

Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds	\$1,780,000.00
Original Issue Premium	<u>207,357.10</u>
Total Sources of Funds	\$1,987,357.10

Uses:

Deposit to Escrow Fund	\$1,911,412.50
Costs of Issuance and Underwriter's Discount	<u>75,944.60</u>
Total Uses of Funds	\$1,987,357.10

REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the Interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. If the District defaults in the payment of the principal or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as discussed below. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of any such remedy may be difficult and time consuming. There is no acceleration of maturity of the Bonds in the event of default and, consequently, a registered owner could be required to enforce such remedy on a periodic basis. 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.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants.

Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that the rights of bondholders are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

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. Also see "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, redemption payments 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 Underwriter believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriter take any responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 security will be issued for each maturity, as set forth on page ii hereof, each in the aggregate principal amount, as applicable, of such maturity and will be deposited with DTC.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered (see “REGISTRATION, TRANSFER AND EXCHANGE – Future Registration”).

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed Bond certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “REGISTRATION, TRANSFER AND EXCHANGE” herein.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank, N.A., Dallas, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order the District retains the right to replace 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; a trust company organized under the applicable law; 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 agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates 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 being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new Registered Owner at the Registered Owner’s request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date For Interest Payment

The date for determining the person to whom interest on the Bonds is payable on any interest payment date (the “Record Date”) means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment 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 (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Registered Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange with respect to any Bond or any portion thereof called for redemption prior to stated maturity, within 45 days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in 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 of satisfactory evidence 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.

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 collective responsibility of the Bowie 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 PROPERTY TAXATION – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district was not permitted to repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in

place for the 2014 tax year (fiscal year 2015) for a period that ended December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-in-Transit Exemptions

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

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

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

Other Exempt Property

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

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 Property Tax Code. Section 11.35 of the Property Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent on how the statute will be applied. On April 13, 2020, the Attorney General of Texas released his opinion that “a court would likely conclude that the Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster. Thus, purely economic, non-physical damage to property caused by the COVID-19 disaster is not eligible for the temporary tax exemption provided by section 11.35 of the Tax Code.” Tex. Att’y Gen. Op. No. KP-0299 (2020).

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. For a schedule of the reductions in assessed valuation attributable to the exemptions allowed by the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT”.

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. 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.

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 Bowie County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various political subdivisions in Bowie County. The District's taxes are collected by the Bowie County Tax Assessor-Collector.

The District grants a State mandated \$25,000 general residence homestead exemption.

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older and the disabled.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption for disabled veterans above the amount of the state-mandated exemption.

The District has not granted any part of the local option, additional exemption of up to 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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

The District does not grant a "freeport" exemption.

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

The District is not currently a participant in any Tax Increment Reinvestment Zone.

The District is not currently a participant in any tax abatement or tax limitation agreements.

The Board of Trustees has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest ^(b)</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32 ^(a)	6	38

^(a) Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.

^(b) Interest continues to accrue after July 1 at the rate of 1% per month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

EMPLOYEES BENEFIT PLAN

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. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program ("TRS Care"), a cost sharing multiple-employer defined benefit post employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan, TRS Care and the District's medical benefit plan, see Notes H, N and X to the audited financial statements of the District that are attached hereto as Appendix D.

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, which was later amended by Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measure Date. 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 retirement plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending June 30, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

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

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better the 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.

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, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 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 Financing System was “undeniably imperfect.” While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

The following language constitutes only a summary of the 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 district’s boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations (“M&O”) tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not levy surplus M&O taxes for the purpose of paying debt service on bonds. A district is authorized to levy their M&O tax at a constitutionally-mandated and voter-approved rate of up to \$1.50 per \$100 of taxable value in the district. 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, districts may levy a 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 among school districts for the same 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 rate.

Prior to the 2019 Legislative Session, a district's maximum M&O tax rate for a given tax year was determined by multiplying that district's 2005 M&O tax rate levy by a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education. 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. 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 district, by up to \$0.17 above the compressed rate (for most districts, between \$1.04 and \$1.17 per \$100 of taxable value). 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.

The 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 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.

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 May 26, 1956, 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 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".

Public Hearing and Voter-Approval Tax Rate

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

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.

RATINGS

S&P Global Ratings (“S&P”) has assigned a bond rating of “AAA” to the Bonds based upon the Permanent School Fund Guarantee. The District’s underlying rating for the Bonds and its other unlimited tax supported bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is “A+” by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the views of S&P, and the District makes no representation as to the appropriateness of such ratings. The 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 S&P. 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 S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel 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, "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as applied to the District"), "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last two sentences of the second paragraph thereof, as to which no opinion is expressed), "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 is expressed) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the respective Bonds, such information conforms to the applicable Order. 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. The respective legal opinion of Bond Counsel will accompany the applicable series of Bonds deposited with DTC or will be printed on the definitive Bonds of such series in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose legal fees of such firms are contingent upon the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in the Official Statement.

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

TAX MATTERS

Tax Exemption

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

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the

Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Changes

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

Tax Accounting Treatment of Discount Bonds

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the

District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) 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.

Investment Objectives

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

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) 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 repurchase agreement, (6) 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, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

Current Investments

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

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Lone Star Investment Pool ("Lone Star") ^(a)	\$4,152,463.74	47.43%
Texstar Investment Pool ("Texstar") ^(a)	2,530,116.37	28.90%
Money Market/Savings Accounts	1,558,684.13	17.80%
Certificates of Deposit	513,431.30	5.87%
Total	<u>\$8,754,965.54</u>	<u>100.00%</u>

*Unaudited.

^(a) Lone Star and Texstar operate pursuant to Chapter 2256 of the Texas Government Code, as amended. Lone Star and Texstar operate as money market equivalents, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

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.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and four citizen members appointed by the Governor. (See “2019 Texas Legislative Session” for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the “GLO”) managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated \$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 “CDBGP Rules”). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

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

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

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

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

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

The 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 CDBG 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 CDBG 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 CDBG 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 "RATINGS" herein.

Valuation of the PSF and Guaranteed Bonds

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

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

(2) At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At July 31, 2020, the PSF had a book value of \$36,431,148,233 and a market value of \$47,621,722,583. July 31, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2015	\$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 ⁽²⁾

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

(2) As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of July 31, 2020, 95.92% of Program capacity was available to the School District Bond Guarantee Program and 4.08% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>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 Amendments

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 billion

distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of \$92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of \$220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB to transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

Changes in the Distribution Rate for each biennial period 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_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is

summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an “obligated person,” within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an “obligated person” of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13)

the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the 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 Underwriter 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 Underwriter's written request and 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 execute a general or special consent to service of process in any jurisdiction.

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 an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

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 under Tables 1 through 18 (the "Annual Financial Information"). 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 Financial Information within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Financial Information, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The District's current fiscal year end is June 30. Accordingly, the Annual Financial Information must be provided by December 31 in each year, and the Financial Statements must be provided by June 30 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 also will provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten (10) 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 or 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 paying agent/registrar or change of name of the paying agent/registrar, if

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

For these purposes, any event described in the subsection (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term “Financial Obligation” shall mean, for purposes of the events described in clauses (15) and (16) above, a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. Additionally, the District intends the words used in clauses (15) and (16) of the preceding paragraphs to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of Bonds free of charge through the MSRB’s EMMA system.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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.

This continuing disclosure agreement may be amended by the District 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 District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule 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 in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

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

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriter

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

FINANCIAL ADVISOR

In its role as Financial Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. 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 also from time to time receive a fee to conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

UNDERWRITING

The Underwriter has 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, less an Underwriter's discount of \$18,998.49, and no accrued interest. The Underwriter's obligations are subject to certain conditions precedent, and they 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 Underwriter.

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

FORWARD LOOKING STATEMENTS

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

The forward-looking statements 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.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District 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.

MISCELLANEOUS

The Bond Order delegated to the Pricing Officer the authority to approve the form and content of this Official Statement for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

Ronnie Thompson
Pricing Officer
Liberty-Eylau Independent School District

SCHEDULE I
SCHEDULE OF BONDS TO BE REFUNDED

<u>Series</u>	<u>Original Dated Date</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Refunded</u>	<u>Redemption Date</u>
Unlimited Tax Refunding Bonds, Series 2012	01/01/2012	\$ 3,215,000	\$ 2,035,000	02/15/2022	(a) \$ 160,000	\$ 160,000	02/15/2021 @ Par
				02/15/2023	(a) 165,000	165,000	02/15/2021 @ Par
				02/15/2024	(b) 170,000	170,000	02/15/2021 @ Par
				02/15/2025	(b) 175,000	175,000	02/15/2021 @ Par
				02/15/2026	(c) 180,000	180,000	02/15/2021 @ Par
				02/15/2027	(c) 190,000	190,000	02/15/2021 @ Par
				02/15/2028	(d) 195,000	195,000	02/15/2021 @ Par
				02/15/2029	(d) 200,000	200,000	02/15/2021 @ Par
				02/15/2030	(e) 215,000	215,000	02/15/2021 @ Par
				02/15/2031	(e) 230,000	230,000	02/15/2021 @ Par
				Total	<u>\$ 1,880,000</u>	<u>\$ 1,880,000</u>	

(a) Represents mandatory sinking fund installment of term bond maturing on February 15, 2023.

(b) Represents mandatory sinking fund installment of term bond maturing on February 15, 2025.

(c) Represents mandatory sinking fund installment of term bond maturing on February 15, 2027.

(d) Represents mandatory sinking fund installment of term bond maturing on February 15, 2029.

(e) Represents mandatory sinking fund installment of term bond maturing on February 15, 2031.

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APPENDIX A
FINANCIAL INFORMATION REGARDING THE DISTRICT

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FINANCIAL INFORMATION INFORMATION REGARDING THE DISTRICT

Table 1
ASSESSED VALUATION^{(a)(b)}

2020/21 Total Assessed Valuation.....	\$ 738,938,401
2020/21 Taxable Assessed Valuation*.....	\$ 598,721,752

* Net of the following deductions provided under Article VIII of the State Constitution.

<u>Exemption</u>	<u>Total</u>
Residential Homestead Exemption/10% Residential Cap.	\$ 65,443,580
Over 65/Disabled Person.....	11,627,127
Disabled Veteran.....	10,012,276
Agricultural Use/Productivity Loss.....	52,956,970
Other.....	176,696
Total (18.98% of Total Assessed Valuation).....	<u>\$ 140,216,649</u>

^(a) Source: Bowie Central Appraisal District and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the Bowie Central Appraisal District updates records.

^(b) Includes values of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Table 2
GENERAL OBLIGATION DEBT OUTSTANDING^(a)

<u>Unlimited Tax Bonds</u>	
Unlimited Tax Bonds Outstanding (as of November 15, 2020).....	\$ 22,600,000
Less: Refunded Bonds.....	1,880,000
Plus: The Bonds (dated November 15, 2020).....	<u>1,780,000</u>
TOTAL UNLIMITED TAX SUPPORTED DEBT.....	\$ 22,500,000
Less: Interest & Sinking Fund Balance (as of June 30, 2019).....	<u>1,530,088</u>
NET UNLIMITED TAX SUPPORTED DEBT.....	<u>\$ 21,069,912</u>

<u>Limited Tax Obligations^(b)</u>	
Limited Tax Obligations Outstanding (As of November 15, 2020).....	<u>\$ 610,000</u> ^(c)
Ratio Net Debt to Taxable Assessed Valuation	3.62%
Estimated 2020 Population 14,721	Per Capita Taxable Assessed Valuation \$ 40,671
2020/21 Enrollment 2,309	Per Capita Total Assessed Valuation \$ 50,196
Area (square miles) 71.63	Per Capita Net Debt \$ 1,431

^(a) See discussion under "TAX RATE LIMITATIONS" in the body of the Official Statement.

^(b) Payable from District's Maintenance & Operations tax rate.

^(c) Represents the District's Qualified Zone Academy Maintenance Tax Notes, Taxable Series 2013 (Tax Credit Notes).

Table 3
ESTIMATED OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Amount</u>	<u>As of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Bowie County	\$ 19,200,000	11/01/20	11.84%	\$ 2,273,280
Texarkana College	9,484,809	11/01/20	10.02%	950,378
Texarkana, City of	<u>47,315,000</u>	11/01/20	62.27%	<u>29,463,051</u>
Total Overlapping Debt				\$ 32,686,708
Liberty-Eylau ISD	\$ 23,110,000	11/01/20	100.00%	<u>23,110,000</u> ^(a)
Total Direct and Overlapping Debt				\$ 55,796,708
Ratio Direct and Overlapping Debt to Taxable Assessed Valuation				9.32%
Ratio Direct and Overlapping Debt to Total Assessed Valuation				7.55%
Per Capita Direct and Overlapping Debt				\$ 3,790

Source: Texas Municipal Reports.

^(a) Includes the Bonds and excludes the Refunded Bonds.

Table 4
PROPERTY TAX RATES AND COLLECTIONS

Tax Year	Taxable Assessed Valuation	Tax Rate	Percent Collections		Fiscal Year Ended
			Current	Total ^(a)	
2015	\$543,528,142	\$1.2610	92.21%	99.52%	6-30-16
2016	549,439,807	1.3700	92.92%	98.94%	6-30-17
2017	551,383,613	1.3700	92.21%	97.74%	6-30-18
2018	567,214,205	1.3700	93.27%	99.46%	6-30-19
2019	584,658,539	1.2684	<u>95.94%</u> ^(b)	<u>99.38%</u> ^(b)	6-30-20
	Five Year Average.....		<u>93.31%</u>	<u>99.01%</u>	
2020	\$598,721,752	\$1.2547	(In Process of Collection)		6-30-21

Source: District's Audited Financial Statements, State Property Tax Reports and District Records.

^(a) Excludes penalty and interest.

^(b) Unaudited collection percentages of June 30, 2020.

Table 5
TAX RATE DISTRIBUTION

	<u>2020/21</u>	<u>2019/20</u> ^(a)	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>
Local Maintenance	\$1.0547	\$1.0684	\$1.1700	\$1.1700	\$1.1700
Interest & Sinking Fund	<u>0.2000</u>	<u>0.2000</u>	<u>0.2000</u>	<u>0.2000</u>	<u>0.2000</u>
Total	<u>\$1.2547</u>	<u>\$1.2684</u>	<u>\$1.3700</u>	<u>\$1.3700</u>	<u>\$1.3700</u>

Source: District's Audited Financial Statements and District Records.

^(a) 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.

Table 6
HISTORICAL TOP TEN TAXPAYERS

PRINCIPAL TAXPAYERS AND THEIR 2020 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Union Pacific Railroad Co.	Railroad	\$ 14,458,035	2.41%
Sterno Candle Lamp	Manufacturing	14,262,317	2.38%
AEP Southwestern Electric Power Co.	Utility	13,037,546	2.18%
Ledwell & Son Enterprises Inc.	Industrial	7,692,323	1.28%
Ledwell, Stephen H.	Commercial	5,904,742	0.99%
Nalco Production LLC	Industrial	5,194,674	0.87%
Mayo Manufacturing Corporation	Manufacturing	5,000,219	0.84%
Kansas City Southern Railway	Railroad	4,666,682	0.78%
White Property Rental LLC	Real Estate	4,503,946	0.75%
Value Truck of AZ INC	Commerical Trucking	4,134,539	0.69%
Total.....		\$ 78,855,023	13.17%

PRINCIPAL TAXPAYERS AND THEIR 2019 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Sterno Candle Lamp	Manufacturing	\$ 15,747,557	2.69%
Union Pacific Railroad Co.	Railroad	13,738,590	2.35%
AEP Southwestern Electric Power Co.	Utility	10,087,753	1.73%
Ledwell & Son Enterprises Inc.	Industrial	7,596,165	1.30%
Ledwell, Stephen H.	Commercial	5,822,325	1.00%
Higuera, David J.	Commercial	5,251,978	0.90%
Kansas City Southern Railway	Railroad	4,998,867	0.86%
Livingston Trucking Inc.	Commercial	4,658,000	0.80%
White Property Rental LLC	Real Estate	4,556,106	0.78%
Mayo Manufacturing Corporation	Manufacturing	4,460,100	0.76%
Total.....		\$ 76,917,441	13.16%

PRINCIPAL TAXPAYERS AND THEIR 2018 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Union Pacific Railroad Co.	Railroad	\$ 13,229,767	2.33%
Sterno Candle Lamp	Manufacturing	13,158,960	2.32%
AEP Southwestern Electric Power Co.	Utility	11,444,962	2.02%
Ledwell & Son Enterprises Inc.	Industrial	7,283,068	1.28%
Ledwell, Stephen H.	Commercial	5,892,399	1.04%
Higuera, David J.	Commercial	5,072,466	0.89%
Kansas City Southern Railway	Railroad	4,787,103	0.84%
White Property Rental LLC	Real Estate	4,390,488	0.77%
K-Mart Corp.	Retail	4,204,814	0.74%
Albertsons Inc.	Grocery Store	4,189,964	0.74%
Total.....		\$ 73,653,991	12.99%

Source: Bowie Central Appraisal District and State Property Tax Reports.

Table 7
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Property Use Category</u>	<u>Total Tax Roll for Fiscal Years</u>				
	<u>2020/21</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>
Real and Personal Property					
Single-Family Residential	\$ 342,460,774	\$ 327,961,565	\$ 316,331,141	\$ 307,429,957	\$ 303,395,579
Multi-Family Residential	18,515,596	19,573,841	18,854,932	18,292,601	17,263,943
Vacant Lots/Tracts	27,013,808	27,141,204	27,992,663	28,408,318	28,162,134
Acreage (Land Only)	68,665,012	67,987,175	68,100,506	68,904,955	68,750,702
Farm and Ranch Improvements	30,292,788	29,341,314	28,299,477	26,184,968	25,910,956
Commercial and Industrial	106,828,306	110,074,019	107,351,909	104,706,005	103,363,407
Oil, Gas & Other Minerals	3,544,482	4,381,750	3,468,599	3,416,943	2,457,831
Inventory	529,362	316,650	257,250	666,250	308,250
Tangible Personal Property					
Business	86,868,451	85,909,684	82,332,922	80,552,354	84,156,729
Mobile Homes/Other	13,812,211	13,551,382	13,084,102	13,182,144	12,901,228
Real & Tangible Personal Property					
Utilities	38,109,782	34,559,515	35,245,456	33,291,440	35,718,811
Special Inventory	2,297,829	2,020,215	1,961,930	1,755,506	1,845,603
Total Real & Tang. Per. Prop.	\$ 738,938,401	\$ 722,818,314	\$ 703,280,887	\$ 686,791,441	\$ 684,235,173
Less: Exemptions					
Residential Homestead/10% Residential	\$ 65,443,580	\$ 65,278,253	\$ 65,707,132	\$ 65,067,453	\$ 65,217,567
Over 65/Disabled Person	11,627,127	11,305,769	11,329,789	11,091,314	11,054,213
Disabled Veteran	10,012,276	8,293,767	7,139,385	6,114,399	5,831,226
Agricultural Use/Productivity Loss	52,956,970	53,122,875	51,723,429	52,930,250	52,436,724
Other	176,696	159,111	166,947	204,412	255,636
Total Exemptions	\$ 140,216,649	\$ 138,159,775	\$ 136,066,682	\$ 135,407,828	\$ 134,795,366
Taxable Assessed Valuation	\$ 598,721,752	\$ 584,658,539	\$ 567,214,205	\$ 551,383,613	\$ 549,439,807

Source: Bowie Central Appraisal District and State Property Tax Reports.

Table 8
PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>Total Tax Roll for Fiscal Years</u>				
	<u>2020/21</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>
Real Property					
Single-Family Residential	46.34%	45.37%	44.98%	44.76%	44.34%
Multi-Family Residential	2.51%	2.71%	2.68%	2.66%	2.52%
Vacant Lots/Tracts	3.66%	3.75%	3.98%	4.14%	4.12%
Acreage (Land Only)	9.29%	9.41%	9.68%	10.03%	10.05%
Farm and Ranch Improvements	4.10%	4.06%	4.02%	3.81%	3.79%
Commercial and Industrial	14.46%	15.23%	15.26%	15.25%	15.11%
Oil, Gas & Other Minerals	0.48%	0.61%	0.49%	0.50%	0.36%
Inventory	0.07%	0.04%	0.04%	0.10%	0.05%
Tangible Personal Property					
Business	11.76%	11.89%	11.71%	11.73%	12.30%
Mobile Homes/Other	1.87%	1.87%	1.86%	1.92%	1.89%
Real & Tangible Personal Property					
Utilities	5.16%	4.78%	5.01%	4.85%	5.22%
Special Inventory	0.31%	0.28%	0.28%	0.26%	0.27%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 9
2020 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Texarkana, City of.....	\$0.700000
Texarkana College.....	\$0.123081
Bowie County.....	\$0.424322

Source: Bowie Central Appraisal District.

Table 10
VALUATION AND FUNDED DEBT HISTORY

Period Ending (8/31)	Taxable Assessed Valuation	Basis of Assessment	Principal Amount of Funded Debt Outstanding^(a)	Ratio Debt to T.A.V.
2017	\$549,439,807	100%	\$24,970,000	4.54%
2018	551,383,613	100%	24,395,000	4.42%
2019	567,214,205	100%	23,810,000	4.20%
2020	584,658,539	100%	23,210,000	3.97%
2021	598,721,752	100%	22,470,000 ^(b)	3.75% ^(b)

^(a) Includes limited tax debt obligations payable from the District's Maintenance & Operations tax rate.

^(b) Projected. Includes the Bonds and excludes the Refunded Bonds.

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE

Period Ending 8/31 ^(a)	Outstanding Debt Service Requirements	Less: Refunded Bonds	Plus: The Bonds			Outstanding Debt Service Requirements
			Principal	Interest	Total	
2021	\$ 1,384,062.50	\$ 62,825.00	\$ 25,000.00	\$ 35,225.00	\$ 60,225.00	\$ 1,381,462.50
2022	1,382,962.50	220,425.00	150,000.00	50,400.00	200,400.00	1,362,937.50
2023	1,387,150.00	220,550.00	155,000.00	45,825.00	200,825.00	1,367,425.00
2024	1,387,831.25	220,525.00	160,000.00	41,100.00	201,100.00	1,368,406.25
2025	1,385,200.00	220,350.00	165,000.00	36,225.00	201,225.00	1,366,075.00
2026	1,384,125.00	220,025.00	170,000.00	31,200.00	201,200.00	1,365,300.00
2027	1,387,300.00	224,475.00	180,000.00	25,950.00	205,950.00	1,368,775.00
2028	1,384,212.50	223,212.50	180,000.00	20,550.00	200,550.00	1,361,550.00
2029	1,384,850.00	221,300.00	185,000.00	15,075.00	200,075.00	1,363,625.00
2030	1,384,075.00	228,500.00	200,000.00	9,300.00	209,300.00	1,364,875.00
2031	1,386,750.00	234,600.00	210,000.00	3,150.00	213,150.00	1,365,300.00
2032	1,383,400.00	-	-	-	-	1,383,400.00
2033	1,387,800.00	-	-	-	-	1,387,800.00
2034	1,384,800.00	-	-	-	-	1,384,800.00
2035	1,385,500.00	-	-	-	-	1,385,500.00
2036	1,384,800.00	-	-	-	-	1,384,800.00
2037	1,382,700.00	-	-	-	-	1,382,700.00
2038	1,384,100.00	-	-	-	-	1,384,100.00
2039	1,383,900.00	-	-	-	-	1,383,900.00
2040	1,387,000.00	-	-	-	-	1,387,000.00
2041	1,383,400.00	-	-	-	-	1,383,400.00
2042	1,383,100.00	-	-	-	-	1,383,100.00
2043	1,385,900.00	-	-	-	-	1,385,900.00
2044	1,386,700.00	-	-	-	-	1,386,700.00
2045	1,385,500.00	-	-	-	-	1,385,500.00
2046	1,387,200.00	-	-	-	-	1,387,200.00
TOTAL	\$ 36,014,318.75	\$ 2,296,787.50	\$ 1,780,000.00	\$ 314,000.00	\$ 2,094,000.00	\$ 35,811,531.25

^(a) Represents debt service payments from September 1 through August 31. Due to timing of tax collection receipts, the District budgets for its August debt service payments in the previous fiscal year.

Table 12
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS ^(a)

Maximum Principal and Interest Requirements, Period Ending August 31, 2033.....	\$ 1,387,800.00
\$0.2493 Tax Rate @ 93% Collection Produces.....	\$ 1,388,130.39

^(a) Based on 2020/21 Taxable Assessed Valuation of \$598,721,752.

Note: Does not include any potential funding the District may receive from the State of Texas from either the Instructional Facilities Allotment and/or Existing Debt Allotment Programs. For the period ended August 31, 2020, the District received \$414,887 in State funding assistance from a combination of these programs. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

Table 13
OUTSTANDING LIMITED TAX DEBT SERVICE

Period Ending 8/31 ^(a)	Debt Service Requirements Series 2013 Notes ^(b)		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 75,000.00	\$ -	\$ 75,000.00
2022	75,000.00	-	75,000.00
2023	75,000.00	-	75,000.00
2024	75,000.00	-	75,000.00
2025	75,000.00	-	75,000.00
2026	75,000.00	-	75,000.00
2027	80,000.00	-	80,000.00
2028	80,000.00	-	80,000.00
TOTAL	<u>\$ 610,000.00</u>	<u>\$ -</u>	<u>\$ 610,000.00</u>

^(a) Represents debt service payments from September 1 through August 31. Due to timing of tax collection receipts, the District budgets for its August debt service payments in the previous fiscal year.

^(b) Represents the District's Qualified Zone Academy Maintenance Tax Notes, Taxable Series 2013 (Tax Credit Notes) (the "Series 2013 Notes") which were issued on June 13, 2013. The Series 2013 Notes were not sold with a supplemental interest rate. Subsequently, no interest accrues on the Series 2013 Notes. The District is required to make annual principal payments as listed above.

Table 14
AUTHORIZED BUT UNISSUED BONDS

The District has no authorized but unissued bonds remaining. In addition to unlimited tax bonds, the District may issue or 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.

Table 15
OTHER LOANS OUTSTANDING

The District has one additional loan outstanding in the amount of \$246,038 that was issued in order to purchase equipment. The interest rate is 4.0%.

Table 16
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ended June 30,				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Assets:</u>					
Cash and Current Investments	\$ 5,279,297	\$ 8,578,232	\$ 9,836,852	\$ 6,107,320	\$ 6,899,380
Taxes Receivable, Net	623,253	659,253	608,945	644,570	681,594
Due from Other Governments	1,499,016	1,632,876	1,270,522	4,516,284	3,159,764
Due From Other Funds	592,720	20,000	20,500	104,167	20,000
Other Receivables	4,490	-	-	-	1,167
Inventories, at Cost	40,780	69,661	75,143	95,321	62,702
Total Assets.....	\$ 8,039,556	\$ 10,960,022	\$ 11,811,962	\$ 11,467,662	\$ 10,824,607
<u>Liabilities:</u>					
Accounts Payable	\$ 178,991	\$ 1,213,977	\$ 168,217	\$ 262,120	\$ 331,405
Payroll Deductions and Withholdings Payable	140,533	145,123	151,487	135,960	141,951
Accrued Wages Payable	1,838,609	1,922,779	1,900,800	1,847,812	1,859,438
Due to Other Governments	544,288	950,475	-	-	-
Due to Other Funds	22,520	20,000	270,000	20,000	20,000
Deferred Revenues and Accrued Expenditures	-	3,025	3,025	3,025	3,025
Total Liabilities.....	\$ 2,724,941	\$ 4,255,379	\$ 2,493,529	\$ 2,268,917	\$ 2,355,819
<u>Deferred Inflows of Resources:</u>					
Deferred Revenue - Unavailable Property Taxes	\$ 504,861	\$ 444,161	\$ 441,650	\$ 460,589	\$ 497,298
Total Deferred Inflows of Resources.....	\$ 504,861	\$ 444,161	\$ 441,650	\$ 460,589	\$ 497,298
<u>Fund Balances:</u>					
Reserved Fund Balance:					
Inventory	\$ 40,780	\$ 69,661	\$ 75,143	\$ 95,321	\$ 62,702
Designated Fund Balance:					
Construction	1,000,000	2,700,000	3,700,000	3,700,000	3,700,000
Undesignated Fund Balance:	3,768,974	3,490,821	5,101,640	4,942,835	4,208,788
Total Fund Balances	\$ 4,809,754	\$ 6,260,482	\$ 8,876,783	\$ 8,738,156	\$ 7,971,490
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,039,556	\$ 10,960,022	\$ 11,811,962	\$ 11,467,662	\$ 10,824,607

Source: District's Audited Financial Statements.

Table 17
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ended June 30,				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning Fund Balance	\$ 6,260,482	\$ 8,876,783	\$ 8,738,156	\$ 7,971,490	\$ 7,839,307
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 6,909,503	\$ 6,664,728	\$ 6,653,902	\$ 6,608,391	\$ 6,665,207
State Program Revenues	16,063,739	15,771,498	15,833,794	16,616,885	15,290,915
Federal Program Revenues	455,342	346,311	296,109	332,730	320,122
Total Revenues.....	<u>\$ 23,428,584</u>	<u>\$ 22,782,537</u>	<u>\$ 22,783,805</u>	<u>\$ 23,558,006</u>	<u>\$ 22,276,244</u>
<u>Expenditures:</u>					
Instruction	\$ 12,321,724	\$ 12,373,145	\$ 12,486,352	\$ 12,879,889	\$ 12,610,117
Instructional Resources & Media Services	117,631	171,451	177,925	221,334	214,164
Curriculum & Staff Development	513,231	433,490	392,169	405,206	371,843
Instructional Leadership	223,119	180,332	171,958	181,613	164,224
School Leadership	1,294,933	1,368,762	1,481,688	1,469,483	1,497,870
Guidance & Counseling	767,132	757,016	735,280	764,465	759,144
Health Services	174,187	121,640	122,156	131,551	128,823
Student (Pupil) Transportation	399,330	301,274	311,581	278,308	287,790
Co-Curricular/Extracurricular Activities	1,294,048	1,150,305	1,183,395	1,099,662	1,095,109
General Administration	956,587	900,954	950,232	894,888	854,047
Plant Maintenance & Operations	3,138,843	2,943,466	2,929,394	2,987,322	2,731,884
Security & Monitoring	221,315	171,887	210,524	248,217	202,723
Data Processing	692,948	606,333	443,748	421,395	375,845
Community Services	7,241	8,872	10,873	21,946	15,481
Debt Service	124,369	75,150	75,150	75,450	75,150
Facilities Acquisition & Constr.	318,533	176,872	124,167	95,621	132,705
Payments to SSA	521,531	575,716	522,267	513,917	527,242
Other Intergovernmental Charges	102,892	82,173	82,152	85,240	99,900
Total Expenditures.....	<u>\$ 23,189,594</u>	<u>\$ 22,398,838</u>	<u>\$ 22,411,011</u>	<u>\$ 22,775,507</u>	<u>\$ 22,144,061</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 238,990</u>	<u>\$ 383,699</u>	<u>\$ 372,794</u>	<u>\$ 782,499</u>	<u>\$ 132,183</u>
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 7,069,757	\$ 6,537,428	\$ 6,328,581	\$ 6,854,325	\$ 6,104,788
Non-Current Loans	285,282	-	-	-	-
Transfers Out (Use)	(9,044,757)	(9,537,428)	(6,562,748)	(6,870,158)	(6,104,788)
Total Other Financing Sources (Uses)	<u>\$ (1,689,718)</u>	<u>\$ (3,000,000)</u>	<u>\$ (234,167)</u>	<u>\$ (15,833)</u>	<u>\$ -</u>
Fund Balance, End of Year^(a)	<u>\$ 4,809,754</u>	<u>\$ 6,260,482</u>	<u>\$ 8,876,783</u>	<u>\$ 8,738,156</u>	<u>\$ 7,971,490</u>

Source: District's Audited Financial Statements.

^(a) The District estimates that its general fund balance as of June 30, 2020 was \$5,429,392.

Table 18
CHANGE IN NET POSITION ^(a)

	Fiscal Years Ended June 30,				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program Revenues					
Charges for Services	\$ 395,307	\$ 385,469	\$ 482,667	\$ 408,211	\$ 484,538
Operating Grants and Contributions	<u>6,307,259</u>	<u>611,564</u>	<u>4,996,346</u>	<u>5,404,292</u>	<u>4,935,204</u>
Total Program Revenues	\$ 6,702,566	\$ 997,033	\$ 5,479,013	\$ 5,812,503	\$ 5,419,742
General Revenues					
Property Taxes	\$ 7,435,634	\$ 7,158,739	\$ 7,113,609	\$ 6,516,750	\$ 6,660,238
State Aid - Formula Grants	15,361,765	14,962,482	15,126,155	16,089,880	14,236,905
Investment Earnings	147,677	243,814	129,587	26,820	27,037
Other	<u>262,827</u>	<u>208,742</u>	<u>158,810</u>	<u>228,727</u>	<u>194,037</u>
Total General Revenues	\$ 23,207,904	\$ 22,573,777	\$ 22,528,161	\$ 22,862,177	\$ 21,118,217
Total Revenues.....	<u>\$ 29,910,470</u>	<u>\$ 23,570,810</u>	<u>\$ 28,007,174</u>	<u>\$ 28,674,680</u>	<u>\$ 26,537,959</u>
Expenses					
Instruction	\$ 15,893,331	\$ 8,989,666	\$ 14,686,876	\$ 15,504,440	\$ 14,184,876
Instructional Resources and Media Services	130,332	93,880	181,225	233,183	209,613
Curriculum and Staff Development	613,833	281,110	453,454	476,868	407,037
Instructional Leadership	517,478	249,946	410,301	431,225	358,117
School Leadership	1,533,107	872,043	1,608,741	1,653,153	1,521,720
Guidance, Counseling and Evaluation Services	901,208	540,107	828,481	879,573	786,645
Health Services	252,208	116,013	161,841	178,328	172,634
Student (Pupil) Transportation	443,080	208,557	342,031	315,128	312,920
Food Services	1,885,040	1,592,097	1,835,838	1,966,365	1,671,478
Co-Curricular/Extracurricular Activities	1,337,239	901,100	1,201,044	1,108,757	1,043,562
General Administration	1,112,172	691,453	988,347	943,962	851,824
Plant Maintenance and Operation	3,252,323	2,347,302	2,961,397	2,966,105	2,937,958
Security and Monitoring Services	230,008	88,818	238,279	238,402	266,669
Data Processing Services	698,805	358,345	453,755	436,491	366,991
Community Services	85,776	37,109	88,968	91,040	40,402
Debt Service	804,234	739,849	962,146	220,773	175,816
Payments to SSA	816,798	872,246	756,916	950,653	834,018
Other Intergovernmental Charges	<u>102,892</u>	<u>82,173</u>	<u>82,152</u>	<u>85,240</u>	<u>99,900</u>
Total Expenses.....	<u>\$ 30,609,864</u>	<u>\$ 19,061,813</u>	<u>\$ 28,241,792</u>	<u>\$ 28,679,686</u>	<u>\$ 26,242,180</u>
Beginning Net Positon	\$ 233,278	\$ 15,813,109	\$ 16,047,727	\$ 16,052,732	\$ 19,916,909
Prior Year Adjustment	-	(20,088,827) ^(c)	-	-	(4,159,956) ^(b)
Increase/(Decrease) in Net Position	<u>(699,394)</u>	<u>4,508,996</u>	<u>(234,618)</u>	<u>(5,006)</u>	<u>295,779</u>
Ending Net Position.....	<u>\$ (466,116)</u>	<u>\$ 233,278</u>	<u>\$ 15,813,109</u>	<u>\$ 16,047,726</u>	<u>\$ 16,052,732</u>

^(a) Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

^(b) See Note Z to the District's Audited Financial Statements for the fiscal year ending June 30, 2015 relating to the implementation of GASB No. 68.

^(c) See Note Y to the District's Audited Financial Statements for the fiscal year ending June 30, 2018 relating to the implementation of GASB No. 75.

APPENDIX B

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

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GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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.

Liberty-Eylau Independent School District (the “District”) encompasses approximately 72 square miles in Bowie County (the “County”). The District is in an agricultural, residential and industrial area that includes the southwest portion of the City of Texarkana (the “City”), as well as a portion of Lake Wright Patman. The City is the principal commercial center of the County, located on the Arkansas-Texas State line, 180 miles east of Dallas. The City has a diversified economy consisting of manufacturing, agriculture, tourism, education, and medical and retail centers. Nearby Red River Army Depot provides employment for many of the District’s residents. The City’s 2010 census population was 36,411, a 4.68% increase since 2000. The District had an enrollment of 2,309 in 2020/21.

The County was created and organized in 1840 from Red River County. The economy is diversified by manufacturing, agribusiness, government employment and tourism. The County’s 2010 census population was 92,565, an increase of 3.65% since 2000.

The District is governed by a seven-member Board of Trustees. All of the Trustees are elected at large and serve without compensation.

Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History

<u>Fiscal Year</u>	<u>Actual Enrollment</u>	<u>Increase/(Decrease) Number</u>	<u>Percentage</u>
2011/12	2,711	(118)	(4.17%)
2012/13	2,674	(37)	(1.36%)
2013/14	2,570	(104)	(3.89%)
2014/15	2,557	(13)	(0.51%)
2015/16	2,586	29	1.13%
2016/17	2,543	(43)	(1.66%)
2017/18	2,506	(37)	(1.45%)
2018/19	2,480	(26)	(1.04%)
2019/20	2,444	(36)	(1.45%)
2020/21*	2,309	(135)	(5.52%)

Source: District Records.

*As of October 20, 2020.

Projected Student Enrollment

<u>Fiscal Year</u>	<u>Projected Enrollment</u>	<u>Increase/(Decrease) Number</u>	<u>Percentage</u>
2021/22	2,310	1	0.04%
2022/23	2,300	0	0.00%
2023/24	2,300	0	0.00%
2024/25	2,300	0	0.00%
2025/26	2,300	0	0.00%

Source: District Records.

Student Enrollment by Grades

<u>Year</u>	<u>EE</u>	<u>PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
2011/12	10	255	199	217	188	194	154	212	206	202	178	180	187	162	167	2,711
2012/13	8	232	207	198	191	194	192	157	201	208	191	185	175	171	164	2,674
2013/14	9	237	177	205	187	167	184	191	143	199	204	190	177	153	147	2,570
2014/15	11	208	205	171	185	188	168	188	190	147	199	196	184	167	150	2,557
2015/16	11	229	152	196	176	193	192	173	194	186	158	202	192	171	161	2,586
2016/17	13	239	166	155	187	159	181	200	162	190	187	158	193	192	161	2,543
2017/18	9	238	170	171	153	190	148	187	189	167	195	189	152	176	172	2,506
2018/19	13	243	169	168	188	141	172	144	190	190	152	200	190	149	171	2,480
2019/20	12	221	166	181	170	178	149	173	149	192	189	166	182	171	145	2,444
2020/21*	10	180	161	169	169	151	167	147	167	142	182	182	144	171	167	2,309

Source: District Records.

*As of October 20, 2020.

EMPLOYEES OF THE DISTRICT

The District currently employs 195 classroom teachers, 22 administrators, 89 teacher aides and secretaries, 59 auxiliary personnel and 28 other personnel for a total employment of 398.

PRESENT SCHOOL FACILITIES

<u>Name of Facility</u>	<u>Grades Served</u>	<u>Present Enrollment*</u>	<u>Planned Capacity</u>	<u>Over/ (Under) Capacity</u>	<u>Teachers</u>	<u>Student/ Teacher Ratio</u>
High School	9-12	664	750	(86)	54	12:1
Middle School	5-8	638	800	(162)	51	13:1
C.K. Bender Elementary School	2-4	487	550	(63)	44	11:1
Early Childhood Center	PreK-1	<u>520</u>	<u>550</u>	<u>(30)</u>	<u>46</u>	<u>11:1</u>
Total		<u>2,309</u>	<u>2,500</u>	<u>(341)</u>	<u>195</u>	<u>12:1</u>

Source: District Records.

*As of October 20, 2020.

LABOR FORCE STATISTICS

Comparative Unemployment Rates

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020*</u>
Bowie County	4.8%	4.1%	4.9%	3.8%	6.2%
State of Texas	4.8%	4.0%	3.7%	3.5%	4.8%
United States of America	4.7%	4.1%	3.9%	3.5%	8.4%

Source: Labor Market Information Department, Texas Workforce Commission.

* As of August, 2020.

APPENDIX C
FORM OF LEGAL OPINION OF
BOND COUNSEL

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

[Delivery Date]

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

IN REGARD to the authorization and issuance of the "Liberty-Eylau Independent School District Unlimited Tax Refunding Bonds, Series 2020", dated November 15, 2020, in the aggregate principal amount of \$1,780,000 (the "Bonds"), we have examined into their issuance by the Liberty-Eylau Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

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

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

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

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

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

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "Liberty-Eylau Independent School District Unlimited Tax Refunding Bonds, Series 2020",
dated November 15, 2020

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

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

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

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

Page 3 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "Liberty-Eylau Independent School District Unlimited Tax Refunding Bonds, Series 2020",
dated November 15, 2020

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

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APPENDIX D

**AUDITED FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of School Trustees
Liberty-Eylau Independent School District
2901 Leopard Drive
Texarkana, Texas 75501

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Liberty-Eylau Independent School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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.

Board of School Trustees
Liberty-Eylau Independent School District

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 on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Liberty-Eylau Independent School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages v-xii, budgetary comparison schedule – general fund on page 51, Schedule of the District's Proportionate Share of the Net Pension Liability (TRS) on pages 52-53, Schedule of the District's Contributions for Pensions on pages 54-55, Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS) on page 56, and Schedule of the District's Contributions for Other Postemployment Benefits (OPEB) on page 57 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 Liberty-Eylau Independent School District's basic financial statements. The combining and individual nonmajor funds, agency funds, and private purpose trust funds financial statements, and the Texas Education Agency required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Board of School Trustees
Liberty-Eylau Independent School District

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

Other Reporting Required by Government Auditing Standards

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


CERTIFIED PUBLIC ACCOUNTANTS

Texarkana, Texas
November 8, 2019

Management's Discussion and Analysis

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Liberty-Eylau Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the report of independent auditors which precedes the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was (\$455,242) at June 30, 2019.
- During the year, the District's expenses were \$699,394 more than the \$29.9 million generated in taxes and other revenues for governmental activities due to the construction projects from the 2016 bond proceeds.
- The General Fund reported a fund balance this year of \$4.81 million.
- The district's financial management received a superior rating with a score of 100 out of 100 from TEA's FIRST report. This is the seventh year in a row the district has received a perfect score from the Financial Integrity Rating System of Texas.
- During 2018-2019 the District received the Comptroller's Transparency Stars for Traditional Finance and Debt Obligations.
- In 2016-2017 the District adopted Community Eligibility Provision (CEP) of the Child Nutrition Program for Prekindergarten – 4th grade. This provision provides free meals to all students at these grade levels regardless of their eligibility status. The Middle School and High School Campuses are no longer covered under this provision. The District has continued this through the 2018-2019 fiscal year.

USING THIS ANNUAL REPORT

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 1. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, liabilities and deferred inflows/outflows or resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in net position. The District's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the

District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District has presented net position measurements as required by generally accepted accounting principles. Our analysis of comparative balances and changes therein for the current year's operations presents both current and prior year data and discusses significant changes in accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$233,278 to (\$466,116). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$15,945,295) at June 30, 2019.

Table A-1
Liberty-Eylau Independent School District

NET POSITION

	Governmental Activities 2018	Governmental Activities 2019	Business-Type Activities 2018	Business-Type Activities 2019	Totals 2018	Totals 2019	Total % Change
Current and other assets	\$ 15,932,738	\$ 10,175,119	\$ 12,702	\$ 10,874	\$ 15,945,440	\$ 10,185,993	-36.12%
Capital assets	38,408,612	40,190,970	-	-	38,408,612	40,190,970	4.64%
Total Assets	<u>54,341,350</u>	<u>50,366,089</u>	<u>12,702</u>	<u>10,874</u>	<u>54,354,052</u>	<u>50,376,963</u>	<u>-7.32%</u>
Deferred Charge for Refunding	181,437	168,197	-	-	181,437	168,197	-7.30%
Deferred Outflows - Pension	1,499,254	4,120,740	-	-	1,499,254	4,120,740	174.85%
Deferred Outflows - OPEB	150,974	1,047,234	-	-	150,974	1,047,234	593.65%
Total Deferred Outflows	<u>1,831,665</u>	<u>5,336,171</u>	<u>-</u>	<u>-</u>	<u>1,831,665</u>	<u>5,336,171</u>	<u>191.33%</u>
Long-term liabilities	43,178,319	47,478,094	-	-	43,178,319	47,478,094	9.96%
Other liabilities	6,926,997	3,433,538	54	-	6,927,051	3,433,538	-50.43%
Total Liabilities	<u>50,105,316</u>	<u>50,911,632</u>	<u>54</u>	<u>-</u>	<u>50,105,370</u>	<u>50,911,632</u>	<u>1.61%</u>
Net Position:							
Deferred Inflows - Pension	1,046,817	830,513	-	-	1,046,817	830,513	-20.66%
Deferred Inflows - OPEB	4,787,604	4,426,231	-	-	4,787,604	4,426,231	-7.55%
Total Deferred Outflows	<u>5,834,421</u>	<u>5,256,744</u>	<u>-</u>	<u>-</u>	<u>5,834,421</u>	<u>5,256,744</u>	<u>-9.90%</u>
Invested in capital assets, net of related debt	11,596,705	13,802,530	-	-	11,596,705	13,802,530	19.02%
Restricted for federal and state programs	171,023	207,123	-	-	171,023	207,123	21.11%
Restricted for debt service	1,326,867	1,530,088	-	-	1,326,867	1,530,088	15.32%
Restricted for capital projects	1,072,179	(60,562)	-	-	1,072,179	(60,562)	-105.65%
Unrestricted Net Position	<u>(13,933,496)</u>	<u>(15,945,295)</u>	<u>12,648</u>	<u>10,874</u>	<u>(13,920,848)</u>	<u>(15,934,421)</u>	<u>14.46%</u>
Total Net Position	<u>\$ 233,278</u>	<u>\$ (466,116)</u>	<u>\$ 12,648</u>	<u>\$ 10,874</u>	<u>\$ 245,926</u>	<u>\$ (455,242)</u>	<u>-285.11%</u>

Table A-2
Liberty-Eylau Independent School District

CHANGES IN NET POSITION

	Governmental Activities 2018	Governmental Activities 2019	Business-Type Activities 2018	Business-Type Activities 2019	Totals 2018	Totals 2019	Total % Change
Revenues:							
Program Revenues:							
Charges for services	\$ 385,469	\$ 395,307	\$ 9,291	\$ 10,619	\$ 394,760	\$ 405,926	2.83%
Operating grants and contributions	611,564	6,307,259	-	-	\$ 611,564	6,307,259	931.33%
General Revenues:							
State aid-formula grants	14,962,482	15,361,765	-	-	\$ 14,962,482	15,361,765	2.67%
Maintenance and operations taxes	6,117,494	6,356,918	-	-	\$ 6,117,494	6,356,918	3.91%
Debt service taxes	1,041,245	1,078,716	-	-	\$ 1,041,245	1,078,716	3.60%
Investment earnings	243,814	147,677	-	-	\$ 243,814	147,677	-39.43%
Miscellaneous	208,742	262,827	-	-	\$ 208,742	262,827	25.91%
Total Revenue	<u>23,570,810</u>	<u>29,910,470</u>	<u>9,291</u>	<u>10,619</u>	<u>23,580,101</u>	<u>29,921,089</u>	<u>26.89%</u>
Expenses:							
Instruction, curriculum and media services	9,364,656	16,637,496	-	-	9,364,656	16,637,496	77.66%
Instructional and school leadership	1,121,989	2,050,585	-	-	1,121,989	2,050,585	82.76%
Student support services	864,677	1,596,496	-	-	864,677	1,596,496	84.63%
Child nutrition	1,592,097	1,885,040	-	-	1,592,097	1,885,040	18.40%
Co-curricular activities	901,100	1,337,239	-	-	901,100	1,337,239	48.40%
General administration	691,453	1,112,172	-	-	691,453	1,112,172	60.85%
Plant maintenance and security	2,436,120	3,482,331	-	-	2,436,120	3,482,331	42.95%
Data processing services	358,345	698,805	-	-	358,345	698,805	95.01%
Community services	37,109	85,776	-	-	37,109	85,776	131.15%
Debt service	739,849	804,234	-	-	739,849	804,234	8.70%
Pmts to fiscal agent/member districts-shared service	872,246	816,798	-	-	872,246	816,798	-6.36%
Other Intergovernmental Charges	82,173	102,892	-	-	82,173	102,892	25.21%
Other business-type activities			12,133	12,393	12,133	12,393	2.14%
Total Expenses	<u>19,061,814</u>	<u>30,609,864</u>	<u>12,133</u>	<u>12,393</u>	<u>19,073,947</u>	<u>30,622,257</u>	<u>60.54%</u>
Transfers In (Out)							
Increase (Decrease) in Net Position	4,508,996	(699,394)	(2,842)	(1,774)	4,506,154	(701,168)	-116%
Beginning Net Position	15,813,109	233,278	15,490	12,648	15,828,599	245,926	-98.45%
Prior Period Adjustment	(20,088,827)	-	-	-	(20,088,827)	-	-
Ending Net Position	<u>\$ 233,278</u>	<u>\$ (466,116)</u>	<u>\$ 12,648</u>	<u>\$ 10,874</u>	<u>\$ 245,926</u>	<u>\$ (455,242)</u>	<u>-285.11%</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$6.5 million, which is a decrease of \$2.3 million from last year's total of \$8.8 million. This decrease is due largely to the decrease in the capital projects committed fund balance for ongoing construction projects.

Over the course of the year, the District revised its budget several times as operating changes became apparent. These budget amendments were in the ordinary course of operations and should be considered as such. The budget amendments were due to year-end accruals, changes requested by campus and department budget managers for their campus or programs, and normal movement between functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had invested 40.1 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. This amount represents a significant increase (including additions and deductions) over the prior year.

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

Debt

At year-end the District had \$26.2 million in bonds and notes outstanding versus \$26.6 million the previous year. More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget and tax rates. Factors included slight gains in appraised values as well as additional costs to be incurred by the district. The Maintenance and Operations rate will remain the same at \$1.17 and the interest and sinking rate increased to \$.20 as a result of the bond issue.

These factors were taken into account when adopting a balanced 2019 General Fund budget of \$23.6 million. Local and state foundation revenues account for the majority of available general fund revenues. The District will use its revenues to finance programs we offer and to meet state mandated requirements.

If these estimates are realized, the District's budgetary General Fund Balance will remain unchanged by the close of 2019. As always the District plans to monitor enrollment figures and tax collections and will implement spending cuts if significant decreases occur.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Office at Liberty-Eylau Independent School District, 2901 Leopard Drive, Texarkana, Texas.

Basic Financial Statements

Government-wide Financial Statements

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

EXHIBIT A-1

Data Control Codes				
	1	2	3	4
	Primary Government			Component Unit
	Governmental	Business		Nonmajor
	Activities	Type	Total	Component
		Activities		Unit
ASSETS				
1110 Cash and Cash Equivalents	\$ 477,710	\$ 2,705	\$ 480,415	\$ 62,677
1120 Current Investments	6,668,173	-	6,668,173	120,069
1220 Property Taxes - Delinquent	1,246,923	-	1,246,923	-
1230 Allowance for Uncollectible Taxes	(528,918)	-	(528,918)	-
1240 Due from Other Governments	2,258,085	-	2,258,085	-
1267 Due from Fiduciary Funds	7,877	-	7,877	-
1290 Other Receivables, Net	4,490	100	4,590	-
1300 Inventories	40,780	8,069	48,849	-
Capital Assets:				
1510 Land	773,446	-	773,446	-
1520 Buildings, Net	38,322,849	-	38,322,849	-
1530 Furniture and Equipment, Net	1,000,740	-	1,000,740	-
1580 Construction in Progress	93,935	-	93,935	-
1000 Total Assets	50,366,089	10,874	50,376,963	182,747
DEFERRED OUTFLOWS OF RESOURCES				
1701 Deferred Charge for Refunding	168,197	-	168,197	-
1705 Deferred Outflow Related to TRS Pension	4,120,740	-	4,120,740	-
1706 Deferred Outflow Related to TRS OPEB	1,047,234	-	1,047,234	-
1700 Total Deferred Outflows of Resources	5,336,171	-	5,336,171	-
LIABILITIES				
2110 Accounts Payable	339,425	-	339,425	-
2140 Interest Payable	324,642	-	324,642	-
2150 Payroll Deductions and Withholdings	161,318	-	161,318	-
2160 Accrued Wages Payable	2,012,848	-	2,012,848	-
2180 Due to Other Governments	592,541	-	592,541	-
2190 Due to Student Groups	2,764	-	2,764	-
Noncurrent Liabilities:				
2501 Due Within One Year	644,631	-	644,631	-
2502 Due in More Than One Year	25,587,365	-	25,587,365	-
2540 Net Pension Liability (District's Share)	8,449,917	-	8,449,917	-
2545 Net OPEB Liability (District's Share)	12,796,181	-	12,796,181	-
2000 Total Liabilities	50,911,632	-	50,911,632	-
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2605 Deferred Inflow Related to TRS Pension	830,513	-	830,513	-
2606 Deferred Inflow Related to TRS OPEB	4,426,231	-	4,426,231	-
2600 Total Deferred Inflows of Resources	5,256,744	-	5,256,744	-
NET POSITION				
3200 Net Investment in Capital Assets	13,802,530	-	13,802,530	-
3820 Restricted for Federal and State Programs	207,123	-	207,123	-
3850 Restricted for Debt Service	1,530,088	-	1,530,088	-
3860 Restricted for Capital Projects	(60,562)	-	(60,562)	-
3900 Unrestricted	(15,945,295)	10,874	(15,934,421)	182,747
3000 Total Net Position	\$ (466,116)	\$ 10,874	\$ (455,242)	\$ 182,747

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 15,893,331	\$ 195,740	\$ 2,744,192
12 Instructional Resources and Media Services	130,332	-	16,200
13 Curriculum and Instructional Staff Development	613,833	-	89,609
21 Instructional Leadership	517,478	-	284,329
23 School Leadership	1,533,107	-	266,673
31 Guidance, Counseling and Evaluation Services	901,208	-	135,369
33 Health Services	252,208	-	22,250
34 Student (Pupil) Transportation	443,080	-	30,336
35 Food Services	1,885,040	127,414	1,373,579
36 Extracurricular Activities	1,337,239	72,153	52,216
41 General Administration	1,112,172	-	55,994
51 Facilities Maintenance and Operations	3,252,323	-	197,010
52 Security and Monitoring Services	230,008	-	19,198
53 Data Processing Services	698,805	-	52,668
61 Community Services	85,776	-	66,925
72 Debt Service - Interest on Long-Term Debt	803,284	-	-
73 Debt Service - Bond Issuance Cost and Fees	950	-	-
81 Capital Outlay	-	-	-
93 Payments Related to Shared Services Arrangements	816,798	-	900,711
99 Other Intergovernmental Charges	102,892	-	-
[TG] Total Governmental Activities:	30,609,864	395,307	6,307,259
BUSINESS-TYPE ACTIVITIES:			
01 Enterprise Funds - Locally Defined	12,393	10,619	-
[TB] Total Business-Type Activities:	12,393	10,619	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 30,622,257	\$ 405,926	\$ 6,307,259
Component Unit:			
1C Nonmajor Component Unit	\$ 22,001	\$ -	\$ 11,261
[TC] TOTAL COMPONENT UNITS:	\$ 22,001	\$ -	\$ 11,261

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Position
NB	Net Position - Beginning
NE	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position			
6	7	8	9
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (12,953,399)	\$ -	\$ (12,953,399)	\$ -
(114,132)	-	(114,132)	-
(524,224)	-	(524,224)	-
(233,149)	-	(233,149)	-
(1,266,434)	-	(1,266,434)	-
(765,839)	-	(765,839)	-
(229,958)	-	(229,958)	-
(412,744)	-	(412,744)	-
(384,047)	-	(384,047)	-
(1,212,870)	-	(1,212,870)	-
(1,056,178)	-	(1,056,178)	-
(3,055,313)	-	(3,055,313)	-
(210,810)	-	(210,810)	-
(646,137)	-	(646,137)	-
(18,851)	-	(18,851)	-
(803,284)	-	(803,284)	-
(950)	-	(950)	-
-	-	-	-
83,913	-	83,913	-
(102,892)	-	(102,892)	-
(23,907,298)	-	(23,907,298)	-
-	(1,774)	(1,774)	-
-	(1,774)	(1,774)	-
(23,907,298)	(1,774)	(23,909,072)	-
-	-	-	(10,740)
-	-	-	(10,740)
6,356,918	-	6,356,918	-
1,078,716	-	1,078,716	-
15,361,765	-	15,361,765	-
147,677	-	147,677	2,558
262,827	-	262,827	-
23,207,903	-	23,207,903	2,558
(699,394)	(1,774)	(701,168)	(8,182)
233,278	12,648	245,926	190,929
\$ (466,116)	\$ 10,874	\$ (455,242)	\$ 182,747

Fund Financial Statements

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 101,221	\$ 68,452	\$ 308,037	\$ 477,710
1120 Investments - Current	5,178,076	1,490,097	-	6,668,173
1220 Property Taxes - Delinquent	1,094,777	152,146	-	1,246,923
1230 Allowance for Uncollectible Taxes	(471,524)	(57,394)	-	(528,918)
1240 Due from Other Governments	1,499,016	-	759,069	2,258,085
1260 Due from Other Funds	592,720	-	-	592,720
1290 Other Receivables	4,490	-	-	4,490
1300 Inventories	40,780	-	-	40,780
1000 Total Assets	<u>\$ 8,039,556</u>	<u>\$ 1,653,301</u>	<u>\$ 1,067,106</u>	<u>\$ 10,759,963</u>
LIABILITIES				
2110 Accounts Payable	\$ 178,991	\$ -	\$ 160,434	\$ 339,425
2150 Payroll Deductions and Withholdings Payable	140,533	-	20,785	161,318
2160 Accrued Wages Payable	1,838,609	-	174,239	2,012,848
2170 Due to Other Funds	22,520	-	562,323	584,843
2180 Due to Other Governments	544,288	48,253	-	592,541
2190 Due to Student Groups	-	-	2,764	2,764
2000 Total Liabilities	<u>2,724,941</u>	<u>48,253</u>	<u>920,545</u>	<u>3,693,739</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	504,861	74,960	-	579,821
2600 Total Deferred Inflows of Resources	<u>504,861</u>	<u>74,960</u>	<u>-</u>	<u>579,821</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	40,780	-	-	40,780
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	163,702	163,702
3480 Retirement of Long-Term Debt	-	1,530,088	-	1,530,088
3490 Other Restricted Fund Balance	-	-	43,421	43,421
Committed Fund Balance:				
3510 Construction	1,000,000	-	(60,562)	939,438
3600 Unassigned Fund Balance	3,768,974	-	-	3,768,974
3000 Total Fund Balances	<u>4,809,754</u>	<u>1,530,088</u>	<u>146,561</u>	<u>6,486,403</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 8,039,556</u>	<u>\$ 1,653,301</u>	<u>\$ 1,067,106</u>	<u>\$ 10,759,963</u>

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 6,486,403
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$62,336,714 and the accumulated depreciation was (\$23,928,101). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. Note: Beginning Balances related to TRS are NOT included in this amount.	11,596,706
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 capital outlays and debt principal payments is to increase net position.	3,959,988
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$1,499,254, a Deferred Resource Inflow in the amount of \$1,046,817 and a net pension liability in the amount of \$5,068,654. The impact of this on Net Position is (\$4,616,217). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$543,473). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$5,159,690) .	(5,159,690)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. At the beginning of the year, the net position related to TRS OPEB was a Deferred Resource Outflow in the amount of \$150,974, a Deferred Resource Inflow in the amount of \$4,787,604 and a net OPEB liability in the amount of \$11,445,332. The impact of this on Net Position is (\$16,081,962). Changes from the current year reporting of the TRS OPEB plan resulted in a decrease in net position in the amount of (\$93,216). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$16,175,178) .	(16,175,178)
5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,754,166)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	579,821
19 Net Position of Governmental Activities	<u><u>\$ (466,116)</u></u>

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 6,909,503	\$ 1,119,724	\$ 137,830	\$ 8,167,057
5800 State Program Revenues	16,063,739	472,110	443,876	16,979,725
5900 Federal Program Revenues	455,342	-	4,045,622	4,500,964
5020 Total Revenues	23,428,584	1,591,834	4,627,328	29,647,746
EXPENDITURES:				
Current:				
0011 Instruction	12,321,724	-	1,607,023	13,928,747
0012 Instructional Resources and Media Services	117,631	-	-	117,631
0013 Curriculum and Instructional Staff Development	513,231	-	54,817	568,048
0021 Instructional Leadership	223,119	-	254,786	477,905
0023 School Leadership	1,294,933	-	132,734	1,427,667
0031 Guidance, Counseling and Evaluation Services	767,132	-	74,449	841,581
0033 Health Services	174,187	-	4,736	178,923
0034 Student (Pupil) Transportation	399,330	-	-	399,330
0035 Food Services	-	-	1,470,345	1,470,345
0036 Extracurricular Activities	1,294,048	-	-	1,294,048
0041 General Administration	956,587	-	-	956,587
0051 Facilities Maintenance and Operations	3,138,843	-	21,076	3,159,919
0052 Security and Monitoring Services	221,315	-	-	221,315
0053 Data Processing Services	692,948	-	-	692,948
0061 Community Services	7,241	-	66,820	74,061
Debt Service:				
0071 Principal on Long-Term Debt	115,880	510,000	-	625,880
0072 Interest on Long-Term Debt	8,339	877,813	-	886,152
0073 Bond Issuance Cost and Fees	150	800	-	950
Capital Outlay:				
0081 Facilities Acquisition and Construction	318,533	-	3,111,472	3,430,005
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	521,531	-	900,711	1,422,242
0099 Other Intergovernmental Charges	102,892	-	-	102,892
6030 Total Expenditures	23,189,594	1,388,613	7,698,969	32,277,176
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	238,990	203,221	(3,071,641)	(2,629,430)
OTHER FINANCING SOURCES (USES):				
7914 Non-Current Loans	285,282	-	-	285,282
7915 Transfers In	7,069,757	-	1,975,000	9,044,757
8911 Transfers Out (Use)	(9,044,757)	-	-	(9,044,757)
7080 Total Other Financing Sources (Uses)	(1,689,718)	-	1,975,000	285,282
1200 Net Change in Fund Balances	(1,450,728)	203,221	(1,096,641)	(2,344,148)
0100 Fund Balance - July 1 (Beginning)	6,260,482	1,326,867	1,243,202	8,830,551
3000 Fund Balance - June 30 (Ending)	\$ 4,809,754	\$ 1,530,088	\$ 146,561	\$ 6,486,403

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (2,344,148)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.	3,959,988
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,754,166)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	75,621
Current year changes due to GASB 68 increased revenues in the amount of \$491,571 but also increased expenditures in the amount of \$1,035,044. The net effect on the change in the ending net position was a decrease in the amount of \$543,473.	(543,473)
Current year changes due to GASB 75 increased revenues in the amount of \$300,975 but also increased expenditures in the amount of \$394,191. The net effect on the change in the ending net position was a decrease in the amount of \$93,216.	(93,216)
Change in Net Position of Governmental Activities	\$ (699,394)

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

Proprietary Fund Financial Statements

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,705
Other Receivables	100
Inventories	8,069
	<hr/>
Total Assets	10,874
	<hr/>
NET POSITION	
Unrestricted Net Position	10,874
	<hr/>
Total Net Position	\$ 10,874
	<hr/> <hr/>

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 10,619
Total Operating Revenues	10,619
OPERATING EXPENSES:	
Supplies and Materials	11,351
Other Operating Costs	1,042
Total Operating Expenses	12,393
Operating Income (Loss)	(1,774)
Total Net Position - July 1 (Beginning)	12,648
Total Net Position - June 30 (Ending)	\$ 10,874

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 10,619
Cash Payments for Suppliers	(11,306)
Cash Payments for Other Operating Expenses	(1,042)
Net Cash Used for Operating Activities	(1,729)
Net Decrease in Cash and Cash Equivalents	(1,729)
Cash and Cash Equivalents at Beginning of Year	4,434
Cash and Cash Equivalents at End of Year	\$ 2,705
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (1,774)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Inventories	99
Increase (decrease) in Accounts Payable	(54)
Net Cash Used for Operating Activities	\$ (1,729)

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

Fiduciary Fund Financial Statements

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 8	\$ 129,836
Investments - Current	126,764	-
Total Assets	<u>126,772</u>	<u>\$ 129,836</u>
LIABILITIES		
Due to Other Funds	7,877	\$ -
Due to Student Groups	-	129,836
Total Liabilities	<u>7,877</u>	<u>\$ 129,836</u>
NET POSITION		
Unrestricted Net Position	<u>118,895</u>	
Total Net Position	<u>\$ 118,895</u>	

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

LIBERTY EYLAU INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ 3,735
Total Additions	<u>3,735</u>
DEDUCTIONS:	
Other Operating Costs	<u>2,500</u>
Total Deductions	<u>2,500</u>
Change in Net Position	1,235
 Total Net Position - July 1 (Beginning)	 <u>117,660</u>
 Total Net Position - June 30 (Ending)	 <u><u>\$ 118,895</u></u>

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

Notes to the Financial Statements

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies

Liberty-Eylau Independent School District (the "District") is a public education agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (FAR) and the requirements of contracts and grants of agencies from which it receives funds.

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

1. Reporting Entity

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity". There is one component unit included within the reporting entity.

Discretely Presented Component Unit

Liberty-Eylau Public Schools Foundation, Inc. (the Foundation), a not-for-profit organization operated by an independent board of directors, is organized to provide assistance, development and maintenance of charitable, educational, or scientific programs or activities for the District. The Foundation is included as a component unit in the District's government wide financial statements.

As a not-for-profit organization, the Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is not classified as a private foundation.

2. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type Activities* include operations that rely, to a significant extent, on fees and charges for support.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

2. Government-Wide and Fund Financial Statements (Continued)

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

All inter-fund transactions are eliminated on the government-wide statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

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

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into investments in capital assets net of related debt, restricted net assets, and unrestricted net assets.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

4. Fund Accounting

The District reports the following major governmental funds:

- a. The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- b. Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the District reports the following fund types:

Governmental Funds:

- a. Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance are accounted for in Special Revenue Funds. Unused balances are subject to being returned to the grantor at the close of the specified project period.
- b. Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
- c. Permanent Funds** – Permanent funds are used to account for donations which the donor has stipulated that the principal may not be expended and that income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

- a. Enterprise Funds** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District's non-major enterprise fund is the Spirit Store. All operations of the enterprise fund are classified as operating activities.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

4. Fund Accounting (Continued)

Fiduciary Funds:

- a. Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District in Private Purpose Trust Funds. The District's Private Purpose Trust Funds include campus VIP funds and scholarship funds.
- b. Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the activity funds.

5. Other Accounting Policies

- a.** For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
- b.** The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting, and are subsequently charged to expenditures when consumed. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
- c.** In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

5. Other Accounting Policies (Continued)

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

- d. Although the District's policy allows some employees to accumulate earned but unused vacation and sick pay benefits, there is no recorded liability since these benefits will not require a cash outlay.
- e. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are recorded at historical cost or, in the case of older assets, at estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	15
Vehicles	5
Office Equipment	5
Computer Equipment	5

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

5. Other Accounting Policies (Continued)

- f. When the District incurs an expense for which it may use either restricted or unassigned assets, restricted assets are utilized first unless there are unassigned assets which must be returned if unused.
- g. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide (FAR)*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

6. Budgetary Data

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in FAR, and is prepared on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to June 19, of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The approved budget is filed with the Texas Education Agency through the Public Education Information System.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and the Food Service Special Revenue Fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board. During the year, several amendments were necessary.

A reconciliation of fund balances at June 30, 2019, for both budgeted and unbudgeted special revenue funds is as follows:

Budgeted Funds	\$ 207,123
Unbudgeted Funds	-
All Special Revenue Funds	<u>\$ 207,123</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

A. Summary of Significant Accounting Policies (Continued)

7. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. As of June 30, 2019, the District had no outstanding encumbrances.

8. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenditures. Actual results could differ from those estimates.

9. Fund Equity

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. The District's policy for the order of spending and availability shall be to reduce funds from the areas as follows: restricted, committed, assigned, and unassigned. As of June 30, 2019, the Non-spendable Fund Balance includes \$40,780 for inventories in the General Fund. The Debt Service Fund has restricted a total of \$1,530,088 for retirement of funded indebtedness as of June 30, 2019. A total of \$1,000,000 has also been committed for authorized construction programs in the General Fund.

10. Risk Management

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

11. TRS-Care Plan

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

B. Reconciliation of Government-Wide and Fund Financial Statements

1. Explanation of Certain Differences Between The Governmental Fund Balance Sheet and The Government-Wide Statement of Net Position

Exhibit C-2 provides a reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in the governmental funds. In addition, long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets At the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Position
Land	\$ 744,845	\$ -	\$ 744,845	
Buildings	34,884,597	(17,944,062)	16,940,535	
Furniture and Equipment	7,264,423	(5,984,039)	1,280,384	
Construction in Progress	19,442,849	-	19,442,849	
Change in Net Position				\$ 38,408,613

Long-term Liabilities At the Beginning of the Year	Payable at the Beginning of the Year	
Bonds Payable	\$ (23,635,000)	
Notes Payable	(760,000)	
Discount on Bonds	(2,269,333)	
Loss on Refunding	181,437	
Accrued Interest	(329,011)	
Change in Net Position		(26,811,907)

Net Adjustment to Net Position	\$ 11,596,706
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Exhibit C-2 provides a reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. Two elements of that reconciliation explain that the District's proportionate share of the net pension liability, net OPEB liability, deferred outflows and deferred inflows of resources as required by GASB 68 and GASB 75 were as follows:

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

1. Explanation of Certain Differences Between The Governmental Fund Balance Sheet and The Government-Wide Statement of Net Position (Continued)

Net Pension Liability	\$ (8,449,917)	
Deferred Inflow	(830,513)	
Deferred Outflow	4,120,740	
Net Adjustment to Net Position		<u>\$ (5,159,690)</u>
Net OPEB Liability	\$ (12,796,181)	
Deferred Inflow	(4,426,231)	
Deferred Outflow	1,047,234	
Net Adjustment to Net Position		<u>\$ (16,175,178)</u>

2. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlay and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. The adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

2. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-Wide Statement of Activities (Continued)

<u>Current Year Capital Outlay</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
Land	\$ 28,601		
Furniture & Equipment	260,335		
Buildings	22,514,804		
Constuction in Progress (Net)	(19,348,914)		
Gain on Disposal	81,697		
Total Capital Outlay	3,536,522	\$ 3,536,522	\$ 3,536,522
<u>Debt and Principal Payments</u>			
Bond Principal	510,000		
Loan Principal	114,244		
Total Principal Payments	624,244	624,244	624,244
<u>Other Items</u>			
New Loan Issuances	(285,283)		
Unamortized Discount on Bonds	93,376		
Deferred Amount on Refunding Bonds	(13,240)		
Total Other Items	(205,147)	(205,147)	(205,147)
<u>Change In Accrued Interest</u>			
Change In Accrued Interest	4,369		
Total Accrued Interest	\$ 4,369	4,369	4,369
Total Adjustment to Net Position		\$ 3,959,988	\$ 3,959,988

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. The adjustment is the result of several items. The details for this element are as follows:

<u>Adjustments to Revenue and Deferred Revenue</u>	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
Taxes Collected from Prior Year Levies	\$ (493,824)	\$ (493,824)	
Uncollected Portion of Current year Levy	235,651	235,651	235,651
PY Delinquent Taxes Estimated Collectible	344,170	344,170	344,170
Other	(10,376)	(10,376)	
Total Changes		\$ 75,621	\$ 579,821

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

C. Bonds

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund. The District has authorized \$27,020,000 in bonds of which \$25,250,000 have been issued as of June 30, 2019.

During 2013, the District authorized and issued \$2,985,000 of advanced refunding bonds. The new debt service requirement is \$4,026,317 while the old debt service requirement was \$4,904,679 resulting in a savings of \$878,362. The refunding resulted in a gain on refunding of \$186,247.

During 2012, the District authorized and issued \$3,215,000 of advanced refunding bonds. The new debt service requirement is \$4,341,792 while the old debt service requirement was \$5,281,839 resulting in a savings of \$940,037. This resulted in a gain on refunding of \$78,559.

During 2016, the District authorized and issued \$19,050,000 of unlimited school building bonds, series 2016, in accordance with the sections 45.001 and 45.003(b)(1) of the Texas Education Code and the general laws of the State of Texas. The District held the election May 7, 2016 and the order passed by the Board of Trustees on July 21, 2016.

A summary of changes in general long-term debt for the year ended June 30, 2019, is as follows:

Description	Interest Rate Payable	Amounts of Original Issue	Amounts Outstanding 6/30/2018	Issued	Retired	Amounts Outstanding 6/30/2019
Unlimited Tax Refunding	2.00%					
Bonds – Series 2012	4.00%	\$ 3,215,000	2,330,000		145,000	2,185,000
Unlimited Tax Refunding	0.75%					
Bonds – Series 2012A	2.20%	\$ 2,985,000	2,475,000		140,000	2,335,000
Unlimited School Building	2.00%					
Bonds – Series 2016	4.00%	\$19,050,000	18,830,000		225,000	18,605,000
Totals			<u>\$23,635,000</u>	<u>\$ -</u>	<u>\$510,000</u>	<u>\$23,125,000</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

C. Bonds (Continued)

Debt Service requirements are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	525,000	865,713	1,390,713
2021	540,000	851,413	1,391,413
2022	555,000	836,713	1,391,713
2023	575,000	819,213	1,394,213
2024	590,000	805,088	1,395,088
2025-2029	3,245,000	3,737,250	6,982,250
2030-2034	3,895,000	3,106,550	7,001,550
2035-2039	4,740,000	2,275,800	7,015,800
2040-2044	5,795,000	1,247,000	7,042,000
2045-2047	2,665,000	161,000	2,826,000
Totals	<u>\$ 23,125,000</u>	<u>\$ 14,705,738</u>	<u>\$ 37,830,738</u>

There was \$887,812 in bond interest expense for the year.

D. Capital Asset Activity

Capital Assets Activity for the District for the year ended June 30, 2019, was as follows:

	<u>Primary Government</u>			
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	<u>6/30/2018</u>			<u>6/30/2019</u>
Governmental Activities				
Land	\$ 744,845	\$ 33,251	\$ (4,650)	\$ 773,446
Buildings and Improvements	34,884,597	22,514,804	-	57,399,401
Furniture and Equipment	7,264,423	344,306	(83,971)	7,524,758
Construction in Progress	19,442,849	35,581	(19,384,496)	93,935
Totals at Historical Cost	<u>62,336,714</u>	<u>22,927,943</u>	<u>(19,473,117)</u>	<u>65,791,540</u>
Less Accumulated Depreciation				
Buildings and Improvements	(17,944,062)	(1,132,490)	-	(19,076,552)
Furniture and Equipment	(5,984,039)	(621,676)	81,697	(6,524,018)
Total Accumulated Depreciation	<u>(23,928,101)</u>	<u>(1,754,166)</u>	<u>81,697</u>	<u>(25,600,570)</u>
Capital Assets, Net	<u>\$ 38,408,613</u>	<u>\$ 21,173,777</u>	<u>\$(19,391,420)</u>	<u>\$ 40,190,970</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

D. Capital Asset Activity (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,119,254
Instructional Resources & Media	5,498
Curriculum	550
Health Services	62,248
Student Transportation	27,723
Food Service	395,539
General Administration	104,599
Plant Maintenance and Operation	<u>38,755</u>
Total Depreciation	<u><u>\$ 1,754,166</u></u>

The District's policy is to capitalize and depreciate those items with a value of \$5,000 or greater. Accordingly, all capital assets with a cost of less than \$5,000 are expensed.

E. Changes in Long-term Liabilities

Long-term activity for the year ended June 30, 2019 was as follows:

	Beginning Balance 6/30/2018	Additions	Reductions	Ending Balance 6/30/2019	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable					
General Obligation Bonds	\$ 23,635,000	\$ -	\$ (510,000)	\$ 23,125,000	\$ 525,000
Capital Notes	760,000	285,283	(114,245)	931,038	119,631
Bond Premium	<u>2,269,333</u>	<u>-</u>	<u>(93,376)</u>	<u>2,175,957</u>	<u>-</u>
Total Governmental Activities					
Long-term Liabilities	<u><u>\$ 26,664,333</u></u>	<u><u>\$ 285,283</u></u>	<u><u>\$ (717,621)</u></u>	<u><u>\$ 26,231,995</u></u>	<u><u>\$ 644,631</u></u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

F. General Fund Federal Source Revenues

Program or Source	CFDA Number	Amount	Total Grant or Entitlement
School Health & Related Services	N/A	\$ 304,965	\$ 304,965
PL 81-874 Impact Aid	84.041	99,453	99,453
Indirect Costs:			
ESSA, Title I, Part A	84.010	44,861	44,861
ESSA, Title II, Part A	84.367	6,063	6,063
Total		<u>\$ 455,342</u>	<u>\$ 455,342</u>

Indirect cost revenues were determined by applying approved indirect cost rates to actual applicable expenditures of federally-funded grant programs.

G. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll on January 1, 2018, upon which the levy for the 2018-2019 fiscal year was based, was \$569,547,837. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2019, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.1700 and \$.200 per \$100 valuation, for a total of \$1.370 per \$100 valuation.

Current tax collections for the year ended June 30, 2019, were 93% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of June 30, 2019, property taxes receivable, net of estimated uncollectible taxes, totaled \$623,253 and \$94,752 for the General and Debt Service Funds, respectively.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations

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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position – Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78791-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan Fiduciary net position as of August 31, 2018.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 209,611,328,793
Less: Plan Fiduciary Net Position	(154,568,901,833)
Net Pension Liability	<u>\$ 55,042,426,960</u>

Net Position as percentage of Total Pension Liability	73.74%
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Benefits Provided – TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five-highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

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

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

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	7.70%	7.70%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%

Liberty-Eylau 2019 Employer Contributions	\$	539,297
Liberty-Eylau 2019 Member Contributions	\$	1,243,621
Liberty-Eylau 2018 NECE On-Behalf Contributions	\$	822,256

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public 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 a federal funding source or a privately sponsored source.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

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

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

Roll Forward – A change was made in the measurement date of the total pension liability for the 2018 measurement year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total pension liability to August 31, 2018. This is the first year using the roll forward procedures.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The active mortality rates were based on 90 percent of the RP 2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pension Mortality Tables.

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

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate	3.69%
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

Discount Rate – The discount rate used to measure the total pension liability was 6.907%. There was a 1.093% decrease in the discount rate from the previous year.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

Discount Rate (Continued) - The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to 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, 2018, are summarized below:

Asset Class	Target Allocation *	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
U.S	18.00%	5.70%	1.04%
Non-U.S. Developed	13.00%	6.90%	0.90%
Emerging Markets	9.00%	8.95%	0.80%
Directional Hedge Funds	4.00%	3.53%	0.14%
Private Equity	13.00%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	3.09%	0.12%
Cash	1.00%	-0.30%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.70%	0.02%
Real Assets	14.00%	5.21%	0.73%
Energy and Natural Resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectations			2.30%
Volatility Drag **			-0.79%
Total	100%		7.25%

* Target allocations are based on the fiscal year 2016 policy model.

** The Expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
LEISD's proportionate share of the net pension liability:	\$12,752,950	\$8,449,917	\$4,966,356

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the District reported a liability of \$8,449,917 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 8,449,917
State's proportionate share that is associated with the District	13,443,323
Total	<u>\$ 21,893,240</u>

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

At August 31, 2018, the employer's proportion of the collective net pension liability was .015351643% which is a decrease of .000500% from its proportion measured as of August 31, 2017.

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

Changes of Assumptions:

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

Changes of Benefit Terms:

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

For the year ended June 30, 2019, the District recognized revenue of \$1,330,531 and pension expense of \$2,488,628 for support provided by the State in the Government Wide Statement of Activities.

At June 30, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 52,670	\$ 207,328
Changes in actuarial assumptions	3,046,602	95,206
Difference between projected and actual investment earnings	-	160,331
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	565,724	367,648
Contributions paid to TRS subsequent to the measurement date	455,744	-
Total	\$ 4,120,740	\$830,513

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

H. Pension Plan Obligations (Continued)

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

Year ended June 30:	Pension Expense Amount
2020	\$787,642
2021	450,238
2022	356,938
2023	450,920
2024	472,035
Thereafter	316,710

I. Deposits and Investments

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with FDIC insurance or pledged securities, as approved by the School Depository Act, with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. At June 30, 2019, the District's deposits were covered by FDIC insurance or pledged securities held by its depository agent for the benefit of the District.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investments pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to the investment practices as provided by the Act. Liberty-Eylau Independent School District is in substantial compliance with the requirements of the Act and with local policies.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

I. Deposits and Investments (Continued)

FASB Accounting Standards Codification Subtopic 820-10 requires that investments in financial and nonfinancial assets be reported in a hierarchy which includes the following three different levels:

- Level I: Assets are based on quoted prices or unadjusted quoted prices in active markets for identical assets or liabilities that District has the ability to access at the District's year end.
- Level II: Assets are based on other than quoted prices or adjusted quoted prices of similar assets or liabilities in markets that are not active.
- Level III: Assets are based on unobservable inputs and which shall reflect the District's own assumptions about the asset or liabilities.

The fair value hierarchy gives the highest priority to Level I assets and the lowest priority to Level III assets. As of June 30, 2019, Liberty-Eylau Independent School District had the following investments, which mature in one-year or less:

<u>Level II Investment Type</u>	<u>District</u>		<u>Component Unit</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Investment Pools				
Lone Star	\$ 4,186,639	\$ 4,186,639	\$ -	\$ -
TexSTAR	1,979,015	1,979,015	-	-
Total Investment Pools	6,165,654	6,165,654	-	-
Investments in Certificate of Deposits	502,519	502,519	120,069	120,069
Total Investments	<u>\$ 6,668,173</u>	<u>\$ 6,668,173</u>	<u>\$ 120,069</u>	<u>\$ 120,069</u>

The District did not have any level I or III investments.

Additional policies and contractual provisions governing deposits and investments for Liberty-Eylau Independent School District are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to obligations of the United States or its agencies, certificates of deposit, repurchase agreements, banker's acceptances, commercial paper, money market funds, mutual funds, guaranteed investments contracts, and public funds investment pools.

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

I. Deposits and Investments (Continued)

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

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that any internally created pool fund group shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of the purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits. The District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member Board of Trustees and pursuant to the Investment Agreement, the Board is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established an Advisory Board. The purpose of the Advisory Board is to gather and exchange information from participants and non-participants relating to Lone Star's operations. The Board has entered into an agreement with the Texas Association of School Boards (TASB), a Texas nonprofit corporation, pursuant to which TASB serves as administrator of the Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AAA. The net asset value of the District's investment in Lone Star approximates fair value.

TexSTAR

The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a Board of Directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, and participant services and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc. provides substantial custodial, transfer agency, fund accounting, and depository services. Standard & Poor's rates money market funds and has rated TexSTAR as AAAM. The net asset value of the District's investment in TexSTAR approximates fair value.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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J. Depository Contract Law

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At June 30, 2019, the bank balance of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,653,151. At year end, the District's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank.

K. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs.

All federal grants shown below are passed through TEA and are reported on the financial statements as Due from Other Governments:

	State Entitlements	Federal and State Grants	Total
General Fund	\$ 1,417,641	\$ 81,375	\$ 1,499,016
Special Revenue Fund	-	759,069	759,069
Total	<u>\$ 1,417,641</u>	<u>\$ 840,444</u>	<u>\$ 2,258,085</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

L. Interfund Receivables and Payables

Interfund balances at June 30, 2019, consisted of the following individual fund receivables and payables:

Fund	Receivable	Payable
General Fund:		
General Fund	\$ 22,520	\$ 22,520
Other Nonmajor Funds	562,333	-
Private Purpose Trust Funds	7,877	-
Total General Fund	<u>592,730</u>	<u>22,520</u>
Other Nonmajor Funds:		
General Fund	-	562,323
Total Other Nonmajor Funds	<u>-</u>	<u>562,323</u>
Private Purpose Trust Funds:		
General Fund		7,877
Total Private Purpose Trust Funds	<u>-</u>	<u>7,877</u>
Total	<u>\$ 592,730</u>	<u>\$ 592,720</u>

Interfund balances represent working capital advances between funds.

M. Concentration of Credit Risks

The District's receivables consist primarily of amounts due from the State of Texas, the Federal Government and taxpayers within the District's taxing jurisdiction.

N. Health Care Coverage

The District participates in the state health insurance plan.

O. Loans

In 2019, the District retired \$114,244 in loans payable.

A summary of the long-term loan activity for the year ended June 30, 2019, is as follows:

Year	Interest	Total	Amount	Amount		Amount
Approved	Rate	Authorized	Outstanding	Borrowed	Retired	Outstanding
Loan Purpose		Loans	06/30/18			06/30/19
Payable From Debt Service Fund Tax Assessments						
2013	QZAB Notes	0.00%	\$ 1,135,000	\$ 760,000	\$ -	\$ 75,000
2018	Purchase Equipment	4.00%	\$ 285,283	\$ -	\$ 285,283	\$ 39,244
Total Loans Payable from all funds				<u>\$ 760,000</u>	<u>\$ 285,283</u>	<u>\$ 114,244</u>
						<u>\$ 931,038</u>

Interest expense totaled \$8,839 in 2019.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

O. Loans (Continued)

Debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	119,631	9,029	128,660
2021	121,444	7,211	128,655
2022	123,336	5,319	128,655
2023	125,305	3,350	128,655
2024	131,321	1,313	132,634
2025-2028	310,000	-	310,000
	<u>\$ 931,038</u>	<u>\$ 26,222</u>	<u>\$ 957,260</u>

P. Litigation

At June 30, 2019, the District is not a defendant in any lawsuit. Accordingly, no liability has been reported in the financial statements.

Q. Workers' Compensation

Public Workers' Compensation Program ("PWCP") was created to formulate, develop and administer a modified self-funded workers' compensation program. The PWCP members are school districts who have joined together under the Interlocal Cooperation Act and the Texas Workers' Compensation laws under Chapter 504 of the Texas Labor Code. The PWCP provides a comprehensive loss control program for all members. The PWCP retains the By The Numbers Actuarial Consulting, Inc. (BTNAC) to perform actuarial services for the PWCP. Based upon the BTNAC Actuarial Report for losses as of June 30, 2019, there are no material unfunded claim benefits of the PWCP. Loss estimation factors are developed over an extended period of time by BTNAC to estimate the ultimate loss due to the inherent uncertainty of these factors, actual losses may vary from the estimates provided.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any one claim in excess of \$450,000 and for aggregate losses of \$3,162,205. For the year ended June 30, 2019, the Fund purchased excess coverage from Safety National Casualty Corporation.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

R. Deferred Inflows of Resources

Deferred inflows of resources for the individual funds of the District at June 30, 2019, consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Net Tax Revenue	\$ 504,861	\$ -	\$ 74,960	\$ 579,821
Totals	\$ 504,861	\$ -	\$ 74,960	\$ 579,821

S. Deferred Compensation Plan

The District has established a deferred compensation plan for part-time employees which requires the employee to contribute 6.2% and the District to contribute 1.3% of eligible compensation. The payroll for employees covered by the deferred compensation plan for the year ended June 30, 2019 was \$283,491. Contributions were \$3,735 from the District and \$17,527 from employees. The total balance in participant accounts for the year ended June 30, 2019 was \$339,231.

The District also established another deferred compensation plan which ended September 1, 2005, for certain employees in which employees contribute 7.5% of eligible compensation. Participant accounts at June 30, 2019, were \$30,555. The District does not make contributions to this plan.

T. Maintenance of Effort

Total District Contributions for health care for 2018-19	\$ 625,450
Subtract any non-medical expenditures	-
2018-2019 Maintenance of Effort	<u>\$ 625,450</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

U. Revenues from Local and Intermediate Sources

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

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 6,288,593	\$ -	\$ 1,071,420	\$ -	\$ 7,360,013
Investment Income	116,285	1,233	27,661	3,731	148,910
Penalties & Interest	138,466	-	20,644	-	159,110
Local Revenues from Member Districts	84,371	-	-	-	84,371
Tuition & Fees	7,990	-	-	-	7,990
Rent	664	-	-	-	664
Revenue from Foundations, Other Non- Profit Organizations, Gifts & Bequests	1,000	-	-	-	1,000
Food Service Activity	-	127,414	-	-	127,414
Athletic Activity	49,653	-	-	-	49,653
Other Revenues from Local Sources	222,479	5,451	-	-	227,930
Total	<u>\$ 6,909,503</u>	<u>\$ 134,099</u>	<u>\$ 1,119,724</u>	<u>\$ 3,731</u>	<u>\$ 8,167,057</u>

V. Joint Venture-Shared Service Arrangements

State Funded – Liberty Eylau ISD fiscal agent: The District is the fiscal agent for the state funded Shared Services Arrangement (“SSA”) which provides special education to member districts. In addition to the District, other member districts include two other districts. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent’s activities of the SSA in Special Revenue Fund No. 437, Shared Service Arrangements State Funded Program Special Education. The SSA has been accounted for using Model 3 in the SSA section of the Resource Guide.

State Program Funds of the SSA attributable to each participating district are summarized below:

<u>Participating District:</u>	<u>Fund 437 SSA Special Education</u>
Liberty-Eylau ISD	\$ 89,307
Redwater ISD	19,137
Maud ISD	19,137
	<u>\$ 127,582</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

V. Joint Venture-Shared Service Arrangements (Continued)

State/Local – Bowie County Schools Transportation Department fiscal agent: The District participates in a state/local funded Shared Service Arrangement (“SSA”) which provides transportation services to member districts. In addition to the District, other member districts include all the districts of Bowie County. All services are provided by the fiscal agent. The Texas Education Agency and the member districts provide funds to the fiscal agent. Although a portion of the funding received by the fiscal agent from the Texas Education Agency is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The fiscal agent manager is responsible for all financial activities of the shared service arrangement. The district has accounted for their portion of the payment of the activities of the SSA’s in the General Fund Function 93, Shared Service Arrangements, and has accounted for the payment using Model 3 in the SSA section of the Resource Guide. These payments totaled \$521,531 for the year ended June 30, 2019, were as follows:

General Fund – Function 93:

SSA - Special Education	\$ 89,307
SSA – Transportation	432,224
	<u>\$ 521,531</u>

Federally Funded – Liberty-Eylau ISD fiscal agent: The District is the fiscal agent for the federally funded Shared Services Arrangements (“SSA”) – which provides special education, vocational education, and technology services to member districts. In addition to the District, other member districts, include two other districts for special education, one other district for vocational education, and two other districts for technology. The Texas Education Agency provides the funds to the fiscal agent, and the funds are passed through to member districts. According to guidance provided in TEA’s Resource Guide, the District has accounted for the activities of the SSA using Model 1 in the SSA section of the Resource Guide.

The District has accounted for the fiscal agent activities of the SSA in the Special Revenue Fund-Shared Services Arrangements as follows:

	Fund 313 SSA IDEA, Part B Formula	Fund 314 SSA IDEA, Part B Preschool
Money Passed to Member District:		
Function 93, Liberty-Eylau ISD	\$ 603,765	\$ 1,679
Function 93, Redwater ISD	139,569	6,383
Function 93, Maud ISD	145,608	3,706
	<u>\$ 888,942</u>	<u>\$ 11,769</u>
Total Expenditure		

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

V. Joint Venture-Shared Service Arrangements (Continued)

The District has accounted for their portion of the receipt of money passed to member districts in the Special Revenue Funds as follows:

Fund 224-IDEA, Part B Formula	\$ 603,765
Fund 225-IDEA, Part B Preschool	\$ 1,679

W. Medicare Prescription Drug, Improvement, and Modernization Act

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public Schools Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on behalf payments have been recorded as equal revenues and expenditures in the amounts of \$62,117, \$50,068, and \$48,708, respectively, for 2019, 2018, and 2017.

X. Defined Other Post-Employment Benefit Plans

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2018, are as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 50,729,490,103
Less: Plan Fiduciary Net Position	(798,574,633)
Net OPEB Liability	<u>\$ 49,930,915,470</u>

Net Position as percentage of Total OPEB Liability	1.57%
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LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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 system.

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high deductible health plans. Eligible Medicare retirees and their dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage. These new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018.

The new premium rates for retirees with Medicare Parts A&B became effective January 1, 2018 and are reflected in the following table.

TRS-Care Monthly Premium Rates
Effective Jan. 1, 2018 - Dec. 31, 2018

	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999
*or surviving spouse		

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate, which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The table on the following page shows contributions to the TRS-Care plan by type of contributor.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Disctrict's 2019 FY Employer Contributions	\$ 179,983	
Disctrict's 2019 FY Member Contributions	\$ 104,982	
Disctrict's 2018 NECE On-Behalf Contributions	\$ 184,337	

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.

With Senate Bill 1, 85th Legislature, Regular Session, TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. House Bill 30 of the 85th Legislature provided an additional \$212 million in a one-time supplemental funding for the FY 2018-2019 biennium. One-time supplemental contributions during fiscal 2018 totaled \$394.6 million.

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

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

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

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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X. Defined Other Post-Employment Benefit Plans (Continued)

Additional Actuarial Methods and Assumptions:

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

**Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of August 31, 2018.*

***Includes inflation at 2.30%*

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

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

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

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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X. Defined Other Post-Employment Benefit Plans (Continued)

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of 0.27 percent in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

Sensitivity of the Net OPEB Liability:

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

	1% Decrease (2.69%)	Current Single Discount Rate (3.69%)	1% Increase (4.69%)
District's proportionate share of the net OPEB liability	\$ 15,231,852	\$ 12,796,181	\$ 10,869,409

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 10,627,437	\$ 12,796,181	\$ 15,652,465

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

At June 30, 2019, the District reported a liability of \$12,796,181 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 12,796,181
State's proportionate share that is associated with the District	<u>13,361,108</u>
Total	<u><u>\$ 26,157,289</u></u>

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

At August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.025627773%, which is a decrease of .000692 from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation:

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

1. Adjustments were made for retirees known to have discounted their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
2. 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.
3. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ended August 31, 2017. This change increased the total OPEB liability.
4. The discount rate changed from 3.42 percent as of August 31, 2017, to 3.69 percent as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

Changes of Benefit Terms:

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

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,193,837 and revenue of \$485,997 for support provided by the State.

At June 30, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 679,046	\$ 201,943
Changes in actuarial assumptions	213,534	3,844,518
Difference between projected and actual investment earnings	2,238	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	45	379,770
Contributions paid to TRS subsequent to the measurement date	152,371	-
Total	<u>\$ 1,047,234</u>	<u>\$ 4,426,231</u>

LIBERTY-EYLAU INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

Year ended June 30:	OPEB Expense Amount
2020	\$ (550,864)
2021	(550,864)
2022	(550,864)
2023	(551,287)
2024	(551,529)
Thereafter	(775,960)

Y. Interfund Transfers

Interfund transfers for the year ended June 30, 2019, are as follows:

Fund	Transfer In	Transfer Out
General Fund:		
General Fund	\$ 7,069,757	\$ 9,044,757
	<u>7,069,757</u>	<u>9,044,757</u>
Capital Projects Fund:		
Capital Projects Fund	1,975,000	-
	<u>1,975,000</u>	<u>-</u>
Totals	<u><u>\$ 9,044,757</u></u>	<u><u>\$ 9,044,757</u></u>

Z. Subsequent Events

Management has evaluated subsequent events through November 8, 2019, the date the financial statements were available for issue, and has determined that no subsequent events disclosures are necessary.



Capital
Markets