Rating: S&P: "AAA"
(See "RATING" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

OFFICIAL STATEMENT
Dated: January 12, 2021

NEW ISSUE: **BOOK-ENTRY-ONLY**

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

$58,625,000
MARSHALL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harrison County, Texas)
Unlimited Tax Refunding Bonds, Taxable Series 2021

Interest Accrual/Accretion Date: Date of Delivery
Dated Date: February 1, 2021 **Due: August 15 and February 15, as shown on the inside cover page**

The Marshall Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2021 (the "Bonds") which are issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"), as shown on the inside cover page hereof, are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207 Texas Government Code, as amended ("Chapter 1207"), and an order (the "Bond Order") authorizing the issuance of the Bonds adopted on November 16, 2020 by the Board of Trustees (the "Board") of the Marshall Independent School District (the "District"). As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute approval of a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate" and together with the Bond Order, the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2021, which completed the sale of the Bonds. The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the CIBs will accrue from the Date of Delivery and will be payable on February 15 and August 15 of each year, commencing August 15, 2021, until stated maturity or prior redemption. Interest on the CABs will accrete from the Date of Delivery, compound semiannually on each February 15 and August 15, commencing August 15, 2021, and will be payable only upon stated maturity. The CIBs will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued as fully registered bonds in denominations of $5,000, representing the total amount of principal, plus the initial premium, if any, paid therefor, and accreted interest payable upon stated maturity (the "Maturity Value"), or any integral multiple thereof. Principal of the CIBs and Maturity Value of the CABs will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the CIBs is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

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

The CIBs maturing on and after February 15, 2031 are subject to redemption at the option of the District in whole or in part, in principal amounts of $5,000 or integral multiples thereof, on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The CABs are not subject to redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the Underwriters subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 11, 2021.

PIPER SANDLER & CO.

FHN FINANCIAL CAPITAL MARKETS **STEPHENS INC.**

$58,625,000
MARSHALL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harrison County, Texas)
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021

MATURITY SCHEDULE
Base CUSIP No: 572682[1]

$57,180,000 Current Interest Bonds

Maturity Date	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix[1]
8/15/2021	$2,790,000	0.150%	0.150%	RR5
**	**	**	**	**
2/15/2027	4,160,000	1.033	1.033	RX2
2/15/2028	4,205,000	1.233	1.233	RY0
2/15/2029	4,260,000	1.386	1.386	RZ7
2/15/2030	4,325,000	1.486	1.486	SA1
2/15/2031	4,395,000	1.586	1.586	SB9
2/15/2032	4,460,000	1.686	1.686	SC7
2/15/2033	4,540,000	1.736	1.736	SD5
2/15/2034	4,620,000	1.886	1.886	SE3
2/15/2035	4,710,000	1.936	1.936	SF0
2/15/2036	4,805,000	1.986	1.986	SG8
2/15/2037	4,910,000	2.086	2.086	SH6
2/15/2038	5,000,000	2.186	2.186	SJ2

(Interest to accrue from the Date of Delivery)

$1,445,000 Capital Appreciation Bonds

Maturity Date	Principal Amount	Initial Yield to Maturity	Maturity Value	Initial Offering Price per $5,000 in Maturity Value	CUSIP Suffix No.[1]
2/15/2022	$885,000	0.313%	$2,340,000	$4,984.20	RS3
2/15/2023	335,000	0.413	2,335,000	4,958.65	RT1
2/15/2024	130,000	0.652	2,335,000	4,902.95	RU8
2/15/2025	50,000	0.873	2,340,000	4,828.30	RV6
2/15/2026	45,000	1.023	5,095,000	4,750.75	RW4

(Interest to accrete from the Date of Delivery)

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

MARSHALL INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Name	Date Initially Elected	Current Term Expires	Occupation
Brad Burris, President	2010	2021	Owner, Century 21 A Select Group
Cathy Marshall, Vice President	2010	2021	Retired
Ted Huffhines, Secretary	2017	2023	Retired
Chase Palmer, Assistant Secretary	2011	2023	Attorney, Palmer Law Firm, Inc.
Bettye Fisher, Member	2018	2023	Retired
Rudy Medina, Member	2019	2022	Insurance Producer, Hefner Group Ins.
Helen Warwick, Member	2004	2022	Homemaker

APPOINTED OFFICIALS

Name	Position	Length of Education Service	Length of Service with the District
Dr. Jerry Gibson	Superintendent (1)	21 Years	4 Years
Susie Byrd	Assistant Superintendent of Business & Finance	13 Years	1 Year
Andy Chilcoat	Assistant Superintendent for Auxiliary Services	17 Years	5 Years
Anika Perkins	Assistant Superintendent for Curriculum & Instruction	17 Years	4 Years

(1) *Dr. Gibson was named lone finalist for superintendent at another Texas ISD; Dr. J. Glenn Hambrick has been appointed interim superintendent pending the search for Dr. Gibson's successor.*

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Goff & Herrington, P.C., Lufkin, Texas	Certified Public Accountants

For additional information, contact:

Susie Byrd
Assistant Superintendent of Business
Marshall ISD
1305 E. Pinecrest Drive
Marshall, Texas 75670
(903) 927-8701

Brian Grubbs / Doug Whitt / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1470
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Marshall Independent School District (the "District") is a political subdivision of the State of Texas located in Harrison County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of $58,625,000 pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order adopted by the Board of Trustees on November 16, 2020 (the "Bond Order"). As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate" and together with the Bond Order, the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2021, which completed the sale of the Bonds. The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciate Bonds ("CABs"). Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose" and "SCHEDULE I – Schedule of Refunded Bonds").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security" and "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).
Redemption Provisions	The CIBs maturing on and after February 15, 2031 are subject to redemption at the option of the District in whole or in part, in principal amounts of $5,000 or integral multiples thereof, on August 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The CABs are not subject to redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced underlying rating, including the Bonds, is "AA-" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATIN" herein.)
Tax Matters	Interest on the Bonds is not excludable from gross income for federal income tax purposes. (See "TAX MATTERS" herein).
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about February 11, 2021.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and II and the Appendices attached hereto, has been prepared by the Marshall Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Harrison County, Texas, in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Taxable Series 2021 (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds, the Order (as defined below) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Marshall Independent School District, 1305 E. Pinecrest Drive, Marshall, Texas 75670 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of this Final Official Statement and the hereinafter defined Escrow Agreement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on October 7, 2020 of Executive Order GA-32, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-32 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-32 remains in place until amended, rescinded, or superseded by the Governor.

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

On December 10, 2020, TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction, non-UIL extracurricular sports and activities, and other activities that cannot be accomplished virtually. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan for on-campus instruction (posted one week prior to the commencement of in person education) in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first three six weeks of Foundation School Program reporting. Specifically, if ADA counts during those three six weeks are more than 1% less than the first three six weeks of the 2019- 2020 school year, the first two six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. In addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

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

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of $58,625,000 pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order adopted on November 16, 2020 (the "Bond Order") by the Board of Trustees of the District (the "Board") authorizing the issuance of the Bonds. As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials (each, a "Pricing Officer") to execute a pricing certificate establishing the pricing terms for the Bonds (the "Pricing Certificate") and together with the Bond Order, the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2021, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuing the Bonds. (See "Schedule I – Schedule of Refunded Bonds").

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled interest payment dates and redemption date from cash and investments to be deposited with BOKF, NA, Dallas, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of November 16, 2020 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Amounts on deposit in the Escrow Fund shall be invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities").

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

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

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

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

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

General Description

The Bonds are dated February 1, 2021 and are issued as (i) obligations on which interest accrues and is payable semiannually and at stated maturity or prior redemption (the "Current Interest Bonds" or the "CIBs") and (ii) obligations on which interest accretes and is payable only at stated maturity (the "Premium Capital Appreciation Bonds" or "CABs"). Interest on the CIBs will accrue from the date of their initial delivery (the "Date of Delivery") to the initial purchasers thereof set forth on the cover page of this Official Statement (the "Underwriters"); interest on the CABs will accrete from the Date of Delivery to their respective dates of stated maturity (the principal amount of each CAB, plus the initial premium (if any) paid therefor, and accreted interest on such CAB payable at stated maturity is referred to herein as the "Maturity Value"). The CIBs will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The CABs will mature on the dates and in the Maturity Values set forth on the inside cover page, and will accrete interest at the stated interest rates, but the yields to the Underwriters will be the approximate yields shown on the inside cover page resulting from the initial offering prices to the public.

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

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

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

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

Redemption Provisions

Optional Redemption of CIBs: The CIBs maturing on and after February 15, 2031 are subject to redemption, at the option of the District, in whole or in part, in principal amounts of $5,000 or integral multiples thereof, on August 15, 2030, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the CIBs are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the CIBs, or portions thereof, to be redeemed.

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

Notice of Redemption and DTC Notices

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

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

Yield on Premium Capital Appreciation Bonds

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

Security

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

Permanent School Fund Guarantee

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

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

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

Payment Record

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

Amendments

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

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

Defeasance

The Order provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the CIBs and Maturity Value of the CABs, as applicable, plus interest on the CIBs to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the CIBs for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those CIBs which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the CIBs for redemption, (ii) gives notice of the reservation of that right to the owners of the CIBs immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Sources and Uses of Funds

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

Sources		
Par Amount of the CIBs	$	57,180,000.00
Par Amount of CABs		1,445,000.00
Premium		12,593,631.45
Total Sources of Funds	$	71,218,631.45
Uses		
Deposit to Escrow Fund	$	70,611,399.59
Costs of Issuance		241,893.95
Underwriters' Discount		365,337.91
Total Uses of Funds	$	71,218,631.45

REGISTERED OWNERS' REMEDIES

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions

(CIBs only), tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

Initial Registration

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

Future Registration

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

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

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

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2020, the General Land Office (the "GLO") managed approximately 15% 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 2020 SBOE distributions to the ASF amounted to an estimated $347 per student and the total amount distributed to the ASF by the SBOE and SLB was $1,701.7 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, 2020, when 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, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and 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, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 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, and that asset allocation is

expected to be fully implemented in the first calendar quarter of fiscal year 2022. 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 10%, 5% and 25%, respectively. At August 31, 2020, the market value of the liquidity account was $4,050,631,451, of which 0.00% was equity investments, 39.43% was fixed income investments and 60.57% was cash.

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, 2020, the Fund's financial assets portfolio was invested as follows: 37.67% in public market equity investments; 14.39% in fixed income investments; 9.83% in absolute return assets; 13.31% in private equity assets; 8.66% in real estate assets; 3.24% in risk parity assets; 5.72% in real return assets; 6.83% in emerging market debt; and 0.35% in unallocated cash, exclusive of the liquidity account.

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 $123,509,204,770 on August 31, 2019 to $128,247,002,583 on August 31, 2020 (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 January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 6.15% in March 2020. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at the Winter 2018 meeting the SBOE determined not to implement a previously approved multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times effective in late March 2018.

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75% 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% 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% 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 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve Fund contained $43,875,326, which represented approximately 1.69% 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 is held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Infectious Disease Outbreak

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

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

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

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S.

and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

TEA Continuity of Operations

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

Impact of COVID-19 on School Districts and Charter Districts

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA's guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented "hold harmless" funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value(1)	Market Value(1)
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	35,288,344,219	46,464,447,981
2020(2)	36,642,000,738	46,764,059,745

(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, 2020, 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, $200.4 million, $4,255.4 million, $7.5 million, and $333.8 million, respectively, and market values of approximately $2,115.4 million, $628.1 million, $3,824.2 million, $0.9 million, and $333.8 million, respectively. At October 31, 2020, the PSF had a book value of $37,040,181,304 and a market value of $46,902,584,511. October 31, 2020 values are based on unaudited data, which is subject to adjustment.*

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount(1)
2016	$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245(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, 2020 (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 $139,992,934,246, of which $49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were $90,336,680,245 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 October 31, 2020, 94.88% of Program capacity was available to the School District Bond Guarantee Program and 5.12% was available to the Charter District Bond Guarantee Program.*

Permanent School Fund Guaranteed Bonds by Category(1)

Fiscal Year Ended 8/31	School District Bonds No. of Issues	School District Bonds Principal Amount	Charter District Bonds No. of Issues	Charter District Bonds Principal Amount	Totals No. of Issues	Totals Principal Amount
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	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020(2)	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

(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 October 31, 2020 (based on unaudited data, which is subject to adjustment), there were $91,697,104,332 of bonds guaranteed under the Guarantee Program, representing 3,340 school district issues, aggregating $89,106,892,332 in principal amount and 65 charter district issues, aggregating $2,590,212,000 in principal amount. At October 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was $5,702,716,863 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020

The following discussion is derived from the Annual Report for the year ended August 31, 2020, 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) and, with respect to the liquidity account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was $46.7 billion, an increase of $0.2 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 updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). 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, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (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 -12.27%, 2.49%, and 5.15%, 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, 2020, 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, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $5.7 billion and capital commitments to private equity limited partnerships for a total of $7.5 billion. Unfunded commitments at August 31, 2020, totaled $2.0 billion in real estate investments and $2.4 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, 2020, the remaining commitments totaled approximately $2.73 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 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, under-performing the benchmark index of 8.54% by approximately 104 basis points. The Liquid(SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid(SBOE) asset classes produced an investment return, net of fees, of 2.35%, out-performing the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $2.0 billion, a decrease of $1.7 billion from fiscal year 2019 earnings of $3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, 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 5.6% for the fiscal year ending August 31, 2020. 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 2019 and 2020, the distribution from the SBOE to the ASF totaled $1.2 billion and $1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled $300 and $600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed $90.3 billion in bonds issued by 872 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 7,789 school district and charter district bond issues totaling $202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by $5.9 billion or 7.0%. The State Capacity Limit increased by $4.7 billion, or 3.8%, during fiscal year 2020 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 2020 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 and 2019 Constitutional Amendment

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a 2.974% Distribution Rate equating to $2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of $92.2 million. 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. In September 2020, the SBOE approved a special, one-time transfer of $300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected $3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of $875 million for the biennium.

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 another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from 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 or SLB 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 the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

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, 2020, 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 Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article

VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

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

On January 12, 2021, the 87th Texas Legislature convened in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to funding public schools, including the District. The District makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.

Local Funding for School Districts

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

State Compression Percentage

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

Maximum Compressed Tax Rate

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

Tier One Tax Rate

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

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

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

Tier Two

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

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

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

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

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should 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.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on March 7, 1968, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage has been set at 93%.
>
> For the 2020 and subsequent tax years, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is $0.93 (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein).

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

The District's taxes are collected by the Harrison County Appraisal District.

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

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

The District does grant the additional local option exemption of up to 20% of the market value of residence homesteads.

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

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

During the fiscal year ended August 31, 2019, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed $150 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "PENSION PLAN AND RETIREE HEALTH PLAN – Health Care Coverage" of the Financial Statements.

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

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

RATINGS

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

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

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

LEGAL MATTERS

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

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record", "Sources and Uses of Funds", "Yield on Premium Capital Appreciation Bonds" and the second paragraph under "Notice of Redemption and DTC Notices", as to which no opinion is expressed) "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only) "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereunder), "TAX MATTERS", "LEGAL

INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings," as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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

TAX MATTERS

Certain Federal Income Tax Considerations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information Reporting and Backup Withholding

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

INVESTMENT POLICIES

Investments

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

Legal Investments

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

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

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of October 31, 2020, the District had approximately $17,139,456 (unaudited) invested in Lone Star Investment Pool (a government investment pool that generally has the characteristics of a money-market mutual fund) and approximately $5,687,237 (unaudited) at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Notice of Certain Events

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

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

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount and maturity value of the outstanding Bonds consent to the amendment or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

LITIGATION

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

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

FORWARD LOOKING STATEMENTS

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of $365,337.91. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

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

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

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

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

CONCLUDING STATEMENT

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

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

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

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

/s/ Susie Byrd

Pricing Officer

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MARSHALL INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds

Unlimited Tax School Building Bonds, Series 2015

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2026	572682PA4	$ 2,830,000.00	5.000%	$ 2,830,000.00	August 15, 2025 @ Par	-
2/15/2027	572682PB2	2,975,000.00	5.000%	2,975,000.00	August 15, 2025 @ Par	-
2/15/2028	572682PC0	3,095,000.00	3.000%	3,095,000.00	August 15, 2025 @ Par	-
2/15/2029	572682PD8	3,220,000.00	5.000%	3,220,000.00	August 15, 2025 @ Par	-
2/15/2030	572682PR7	2,000,000.00	5.000%	2,000,000.00	August 15, 2025 @ Par	-
2/15/2030	572682PE6	1,380,000.00	4.000%	1,380,000.00	August 15, 2025 @ Par	-
2/15/2031	572682PF3	3,530,000.00	4.000%	3,530,000.00	August 15, 2025 @ Par	-
2/15/2032	572682PG1	3,670,000.00	4.000%	3,670,000.00	August 15, 2025 @ Par	-
2/15/2033	572682PH9	3,820,000.00	4.000%	3,820,000.00	August 15, 2025 @ Par	-
2/15/2034	572682PJ5	3,975,000.00	4.000%	3,975,000.00	August 15, 2025 @ Par	-
2/15/2035	572682PK2	4,140,000.00	4.000%	4,140,000.00	August 15, 2025 @ Par	-
2/15/2036	572682PL0	4,330,000.00	5.000%	4,330,000.00	August 15, 2025 @ Par	-
2/15/2037	572682PM8	4,555,000.00	5.000%	4,555,000.00	August 15, 2025 @ Par	-
2/15/2038	572682PN6	4,785,000.00	5.000%	4,785,000.00	August 15, 2025 @ Par	-
2/15/2039	572682PP1	5,030,000.00	5.000%	5,030,000.00	August 15, 2025 @ Par	-
2/15/2040	572682PQ9	5,290,000.00	5.000%	5,290,000.00	August 15, 2025 @ Par	-
		$ 58,625,000.00		$ 58,625,000.00		$ -

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MARSHALL INDEPENDENT SCHOOL DISTRICT
Unlimited Tax Refunding Bonds, Taxable Series 2021

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

CABs Delivery Date: February 11, 2021

Date	Accreted Value of 2/15/2022 Maturity @ 0.313%	Accreted Value of 2/15/2023 Maturity @ 0.413%	Accreted Value of 2/15/2024 Maturity @ 0.652%	Accreted Value of 2/15/2025 Maturity @ 0.873%	Accreted Value of 2/15/2026 Maturity @ 1.023%
02/11/21	$ 4,984.20	$ 4,958.65	$ 4,902.95	$ 4,828.30	$ 4,750.75
02/15/21	4,984.39	4,958.91	4,903.31	4,828.78	4,751.30
08/15/21	4,992.19	4,969.15	4,919.29	4,849.86	4,775.60
02/15/22	5,000.00	4,979.41	4,935.33	4,871.03	4,800.03
08/15/22		4,989.70	4,951.42	4,892.29	4,824.58
02/15/23		5,000.00	4,967.56	4,913.64	4,849.26
08/15/23			4,983.75	4,935.09	4,874.06
02/15/24			5,000.00	4,956.63	4,898.99
08/15/24				4,978.27	4,924.05
02/15/25				5,000.00	4,949.24
08/15/25					4,974.56
02/15/26					5,000.00

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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MARSHALL INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION [1]

2020/21 Total Valuation……………		$ 3,323,199,942
Less Exemptions & Deductions [2]:		
State Homestead Exemption	$ 164,747,004	
State Over-65 Exemption	25,611,707	
Disabled Homestead Exemption Loss	14,945,433	
Local Option Percentage Exemption	164,383,214	
Veterans Exemption Loss	2,295,248	
Freeport Control Exemption	92,594,670	
Pollution Control Exemption Loss	46,569,720	
Minimum Value and Other Exemptions	1,745,059	
Productivity Loss	227,908,870	
Homestead Cap Loss	1,281,733	
	$ 742,082,658	
2020/21 Net Taxable Valuation [3]……………		$ 2,581,117,284

(1) Source: Certified Value from the Harrison Central Appraisal District as of July 2020.
(2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.
(3) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled $53,964,953 in 2019/20.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		$ 87,075,000
Less: The Refunded Bonds		(58,625,000)
Plus: The Refunding Bonds [1]		58,625,000
Total Unlimited Tax Bonds [1]		87,075,000
Less: Interest & Sinking Fund Balance (As of August 31, 2020) [2]		(3,200,000)
Net General Obligation Debt		$ 83,875,000
Ratio of Net G.O. Debt to Net Taxable Valuation [3]	3.25%	
2021 Population Estimate [4]	30,308	
Per Capita Net Taxable Valuation	$85,163	
Per Capita Net G.O. Debt	$2,767	

(1) Excludes the accreted value of outstanding capital appreciation bonds.
(2) Source: Marshall ISD Unaudited Financial Statement.
(3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information relative to the District's outstanding obligations.
(4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation	Tax Rate	% Collections [4] Current [5]	Total [5]
2006/07	$ 1,813,662,559 [1]	$ 1.3700 [6]	96.39%	99.90%
2007/08	2,503,716,942 [1]	1.0400 [6]	97.14%	100.79%
2008/09	2,510,876,057 [1]	1.0400	96.75%	99.55%
2009/10	2,683,736,971 [1]	1.0400	96.51%	99.34%
2010/11	2,752,602,202 [1]	1.0400	97.00%	100.62%
2011/12	2,783,622,028 [1]	1.0400	96.46%	99.37%
2012/13	2,826,869,114 [1]	1.0400	96.72%	100.44%
2013/14	2,625,076,595 [1]	1.0400	96.76%	100.07%
2014/15	2,643,322,267 [1]	1.0400	96.38%	99.41%
2015/16	2,547,937,180 [1][2]	1.3300	96.77%	99.36%
2016/17	2,351,885,083 [1][2]	1.3300	95.56%	97.04%
2017/18	2,389,066,458 [1][2]	1.3300	96.26%	101.51%
2018/19	2,460,099,633 [1][2]	1.3300	95.83%	99.14%
2019/20	2,637,632,192 [1][2]	1.2600 [7]	99.00% [8]	99.00% [8]
2020/21	2,581,117,284 [2][3]	1.2563		

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

TAX RATE DISTRIBUTION

	2016/17	2017/18	2018/19	2019/20 [1]	2020/21 [1]
Maintenance & Operations	$1.0400	$1.0400	$1.0400	$0.9700	$0.9664
Debt Service	$0.2900	$0.2900	$0.2900	$0.2900	$0.2899
Total Tax Rate	$1.3300	$1.3300	$1.3300	$1.2600	$1.2563

(1) The declines in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year and from the 2019/2020 fiscal year to the 2020/2021 fiscal year are functions of House Bill 3 adopted by the Texas Legislature in June 2019.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding [1]	Ratio Debt to A.V. [2]
2006/07	$ 1,813,662,559	$ -	0.00%
2007/08	2,503,716,942	-	0.00%
2008/09	2,510,876,057	-	0.00%
2009/10	2,683,736,971	-	0.00%
2010/11	2,752,602,202	-	0.00%
2011/12	2,783,622,028	-	0.00%
2012/13	2,826,869,114	-	0.00%
2013/14	2,625,076,595	-	0.00%
2014/15	2,643,322,267	82,070,000	3.10%
2015/16	2,547,937,180	87,675,000	3.44%
2016/17	2,351,885,083	85,265,000	3.63%
2017/18	2,389,066,458	92,310,000	3.86%
2018/19	2,460,099,633	89,750,000	3.65%
2019/20	2,637,632,192	87,075,000	3.30%
2020/21	2,581,117,284 [3]	81,485,000 [4]	3.16%

(1) At Fiscal Year End.
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information.
(3) Source: Certified Value from the Harrison Central Appraisal District as of July 2020.
(4) Includes the Refunding Bonds and excludes the Refunded Bonds. Excludes the accreted value of outstanding capital appreciation bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Harrison County	$ 1,230,000	38.93%	$ 478,839
City of Marshall	4,560,000	100.00%	4,560,000
Total Overlapping Debt [1]			$ 5,038,839
Marshall Independent School District [2]			83,875,000
Total Direct & Overlapping Debt			$ 88,913,839

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	3.44%
Per Capita Direct & Overlapping Debt	$2,934

(1) Equals gross-debt less self-supporting debt.
(2) Includes the Refunding Bonds and excludes the Refunded Bonds. Excludes the accreted value of outstanding capital appreciation bonds.

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

2020/21 Top Ten Taxpayers [1]

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Southwestern Electric Power Co.	Electric Utility	$ 307,595,460	11.92%
Norit Americas Inc. - Plant	Chemicals Manufacturing	113,055,060	4.38%
General Cable Industries	Cable Company	103,569,760	4.01%
Sabine Mining Co.	Coal Mine	81,108,830	3.14%
Comstock Oil & Gas LLC	Oil & Gas	61,396,010	2.38%
Harrison County Power Project	Energy	57,327,380	2.22%
Tanos Exploration II LLC	Oil & Gas	30,605,330	1.19%
Union Pacific Railroad Co.	Railroad	29,236,310	1.13%
Profrac Manufacturing LLC	Industrial Manufacturing	28,367,170	1.10%
Master Woodcraft Cabinetry Inc.	Home Improvement	27,481,500	1.06%
		$ 839,742,810	32.53% [2]

2019/20 Top Ten Taxpayers [1]

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Southwestern Electric Power Co.	Electric Utility	$ 292,433,900	11.09%
Norit Americas Inc. - Plant	Chemicals Manufacturing	132,784,790	5.03%
General Cable Industries	Cable Company	110,543,370	4.19%
Sabine Mining Co.	Coal Mine	78,690,330	2.98%
BP America Production Co.	Oil & Gas	73,396,220	2.78%
Cover Park Operating LLC	Oil & Gas	48,415,740	1.84%
Harrison County Power Project	Energy	45,351,380	1.72%
Profrac Manufacturing LLC	Industrial Manufacturing	40,283,870	1.53%
Union Pacific Railroad Co.	Railroad	27,798,850	1.05%
Master Woodcraft Cabinetry Inc.	Home Improvement	27,692,300	1.05%
		$ 877,390,750	33.26%

2018/19 Top Ten Taxpayers [1]

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Southwestern Electric Power Co.	Electric Utility	$ 276,951,090	11.26%
Norit Americas Inc. - Plant	Chemicals Manufacturing	158,757,380	6.45%
General Cable Industries	Cable Company	97,773,520	3.97%
BP America Production Co.	Oil & Gas	83,647,540	3.40%
Sabine Mining Co.	Coal Mine	70,597,090	2.87%
Covey Park Operating LLC	Oil & Gas	49,135,980	2.00%
Harrison County Power Project	Energy	46,742,940	1.90%
Marshall Mine LLC	Mining Company	33,385,580	1.36%
Hardware Distributions Warehouses Inc.	Wholesale Supplier/Distribution	29,820,790	1.21%
Union Pacific Railroad Co.	Railroad	26,737,220	1.09%
		$ 873,549,130	35.51%

(1) Source: Top Taxpayers from the Harrison Central Appraisal District.
(2) As shown in the table above, the top ten taxpayers in the District account for in excess of 32% of the District's tax base. Adverse developments in economic conditions, especially in the oil and gas industry, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. Oil and gas prices in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation's oil trading. See "INTRODUCTORY STATEMENT – COVID-19" herein. In addition, the valuation of power utilities within the State, as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; private power generation facilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in this Official Statement.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2020/21 (1)	% of Total	2019/20 (2)	% of Total	2018/19 (2)	% of Total
Real, Residential, Single-Family	$ 781,090,840	23.50%	$ 769,579,180	22.64%	$ 759,816,670	23.65%
Real, Residential, Multi-Family	50,433,660	1.52%	50,746,550	1.49%	44,289,900	1.38%
Real, Vacant Lots/Tracts	23,348,540	0.70%	23,848,890	0.70%	24,160,590	0.75%
Real, Qualified Land & Improvements	249,536,040	7.51%	255,625,848	7.52%	238,826,690	7.44%
Real, Non-Qualified Land & Improvements	478,023,160	14.38%	468,451,860	13.78%	459,579,300	14.31%
Real, Commercial & Industrial	595,491,002	17.92%	574,665,160	16.91%	549,809,988	17.12%
Oil & Gas	202,329,090	6.09%	251,446,710	7.40%	217,440,796	6.77%
Utilities	229,628,330	6.91%	218,653,370	6.43%	188,560,130	5.87%
Tangible Personal, Commercial & Industrial	681,386,670	20.50%	755,361,350	22.22%	700,798,410	21.82%
Tangible Personal, Mobile Homes & Other	17,809,170	0.54%	17,951,210	0.53%	17,592,480	0.55%
Tangible Personal, Residential Inventory	585,000	0.02%	828,260	0.02%	960,350	0.03%
Tangible Personal, Special Inventory	13,538,440	0.41%	11,967,150	0.35%	10,314,720	0.32%
Total Appraised Value	$ 3,323,199,942	100.00%	$ 3,399,125,538	100.00%	$ 3,212,150,024	100.00%
Less:						
Homestead Cap Adjustment	$ 1,281,733		$ 2,548,687		$ 3,210,361	
Productivity Loss	227,908,870		233,355,160		218,162,790	
Exemptions (3)	512,892,055		525,589,499		530,677,240	
Total Exemptions/Deductions (4)	$ 742,082,658		$ 761,493,346		$ 752,050,391	
Net Taxable Assessed Valuation	$ 2,581,117,284		$ 2,637,632,192		$ 2,460,099,633	

Category	2017/18 (2)	% of Total	2016/17 (2)	% of Total	2015/16 (2)	% of Total
Real, Residential, Single-Family	$ 748,234,600	23.92%	$ 733,647,460	24.01%	$ 733,824,420	22.72%
Real, Residential, Multi-Family	40,874,390	1.31%	42,954,390	1.41%	37,538,400	1.16%
Real, Vacant Lots/Tracts	23,804,690	0.76%	24,876,800	0.81%	24,677,110	0.76%
Real, Qualified Land & Improvements	237,910,300	7.60%	228,606,670	7.48%	212,423,270	6.58%
Real, Non-Qualified Land & Improvements	447,739,010	14.31%	441,582,190	14.45%	422,225,420	13.07%
Real, Commercial & Industrial	555,386,340	17.75%	543,754,010	17.80%	534,055,550	16.53%
Oil & Gas	181,851,710	5.81%	170,027,680	5.57%	384,535,070	11.90%
Utilities	193,625,640	6.19%	144,850,300	4.74%	151,937,530	4.70%
Tangible Personal, Commercial & Industrial	670,334,700	21.43%	695,237,130	22.76%	698,456,040	21.62%
Tangible Personal, Mobile Homes & Other	18,119,130	0.58%	17,952,660	0.59%	18,464,990	0.57%
Tangible Personal, Residential Inventory	773,560	0.02%	781,900	0.03%	1,083,190	0.03%
Tangible Personal, Special Inventory	9,906,230	0.32%	10,877,340	0.36%	11,281,210	0.35%
Total Appraised Value	$ 3,128,560,300	100.00%	$ 3,055,148,530	100.00%	$ 3,230,502,200	100.00%
Less:						
Homestead Cap Adjustment	$ 5,519,800		$ 2,938,930		$ 1,947,360	
Productivity Loss	216,559,420		209,070,470		196,867,240	
Exemptions (3)	517,414,622		491,254,047		483,750,420	
Total Exemptions/Deductions (4)	$ 739,493,842		$ 703,263,447		$ 682,565,020	
Net Taxable Assessed Valuation	$ 2,389,066,458		$ 2,351,885,083		$ 2,547,937,180	

(1) Source: Certified Value from the Harrison Central Appraisal District as of July 2020.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.
(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds	Less: The Refunded Bonds	Plus: The Refunding Bonds [1]	Total [1]	Bonds Unpaid At Year End	Percent of Principal Retired
2021	$ 2,800,000.00	$ -	$ 2,790,000.00	$ 5,590,000.00	$ 81,485,000.00	6.42%
2022	2,930,000.00	-	885,000.00	3,815,000.00	77,670,000.00	10.80%
2023	3,070,000.00	-	335,000.00	3,405,000.00	74,265,000.00	14.71%
2024	3,215,000.00	-	130,000.00	3,345,000.00	70,920,000.00	18.55%
2025	3,365,000.00	-	50,000.00	3,415,000.00	67,505,000.00	22.47%
2026	3,530,000.00	2,830,000.00	45,000.00	745,000.00	66,760,000.00	23.33%
2027	3,695,000.00	2,975,000.00	4,160,000.00	4,880,000.00	61,880,000.00	28.93%
2028	3,840,000.00	3,095,000.00	4,205,000.00	4,950,000.00	56,930,000.00	34.62%
2029	3,990,000.00	3,220,000.00	4,260,000.00	5,030,000.00	51,900,000.00	40.40%
2030	4,170,000.00	3,380,000.00	4,325,000.00	5,115,000.00	46,785,000.00	46.27%
2031	4,340,000.00	3,530,000.00	4,395,000.00	5,205,000.00	41,580,000.00	52.25%
2032	4,510,000.00	3,670,000.00	4,460,000.00	5,300,000.00	36,280,000.00	58.33%
2033	4,685,000.00	3,820,000.00	4,540,000.00	5,405,000.00	30,875,000.00	64.54%
2034	4,870,000.00	3,975,000.00	4,620,000.00	5,515,000.00	25,360,000.00	70.88%
2035	5,060,000.00	4,140,000.00	4,710,000.00	5,630,000.00	19,730,000.00	77.34%
2036	5,275,000.00	4,330,000.00	4,805,000.00	5,750,000.00	13,980,000.00	83.94%
2037	5,525,000.00	4,555,000.00	4,910,000.00	5,880,000.00	8,100,000.00	90.70%
2038	5,790,000.00	4,785,000.00	5,000,000.00	6,005,000.00	2,095,000.00	97.59%
2039	6,065,000.00	5,030,000.00	-	1,035,000.00	1,060,000.00	98.78%
2040	6,350,000.00	5,290,000.00	-	1,060,000.00	-	100.00%
Total	$ 87,075,000.00	$ 58,625,000.00	$ 58,625,000.00	$ 87,075,000.00		

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

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Less: The Refunded Bonds	Plus: The Bonds [1] Principal	Interest	Total	Combined Total [1] [2]
2021	$ 6,497,425.00	$ 2,664,200.00	$ 2,790,000.00	$ 476,101.00	$ 3,266,101.00	$ 7,099,326.00
2022	6,496,775.00	2,664,200.00	885,000.00	2,382,316.96	3,267,316.96	7,099,891.96
2023	6,499,725.00	2,664,200.00	335,000.00	2,927,316.96	3,262,316.96	7,097,841.96
2024	6,500,950.00	2,664,200.00	130,000.00	3,132,316.96	3,262,316.96	7,099,066.96
2025	6,498,375.00	2,664,200.00	50,000.00	3,217,316.96	3,267,316.96	7,101,491.96
2026	6,501,500.00	5,423,450.00	45,000.00	5,977,316.96	6,022,316.96	7,100,366.96
2027	6,498,425.00	5,423,325.00	4,160,000.00	905,830.56	5,065,830.56	6,140,930.56
2028	6,500,650.00	5,422,525.00	4,205,000.00	858,420.33	5,063,420.33	6,141,545.33
2029	6,501,000.00	5,420,600.00	4,260,000.00	802,974.70	5,062,974.70	6,143,374.70
2030	6,499,500.00	5,422,500.00	4,325,000.00	741,318.15	5,066,318.15	6,143,318.15
2031	6,497,300.00	5,424,300.00	4,395,000.00	674,331.05	5,069,331.05	6,142,331.05
2032	6,498,550.00	5,420,300.00	4,460,000.00	601,880.90	5,061,880.90	6,140,130.90
2033	6,498,175.00	5,420,500.00	4,540,000.00	524,875.90	5,064,875.90	6,142,550.90
2034	6,500,875.00	5,419,600.00	4,620,000.00	441,902.10	5,061,902.10	6,143,177.10
2035	6,501,350.00	5,422,300.00	4,710,000.00	352,742.70	5,062,742.70	6,141,792.70
2036	6,497,325.00	5,421,250.00	4,805,000.00	259,436.25	5,064,436.25	6,140,511.25
2037	6,497,337.50	5,424,125.00	4,910,000.00	160,511.30	5,070,511.30	6,143,723.80
2038	6,500,646.88	5,420,625.00	5,000,000.00	54,650.00	5,054,650.00	6,134,671.88
2039	6,500,821.88	5,420,250.00	-	-	-	1,080,571.88
2040	6,497,562.50	5,422,250.00	-	-	-	1,075,312.50
	$ 129,984,268.76	$ 94,648,900.00	$ 58,625,000.00	$ 24,491,559.74	$ 83,116,559.74	$ 118,451,928.50

(1) Includes the accreted value of outstanding capital appreciation bonds.
(2) Based on its wealth per student, the District does not expect to receive Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2020/21. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement [1]	$ 7,101,491.96
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption [2]	113,000.00
Projected Net Debt Service Requirement	$ 6,988,491.96
$0.27913 Tax Rate @ 97% Collections Produces	$ 6,988,491.96
2020/21 Net Taxable Assessed Valuation	$ 2,581,117,284

(1) Includes the Refunding Bonds and excludes the Refunded Bonds.
(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2020/21, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.

AUTHORIZED BUT UNISSUED BONDS

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

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES [(1)]

	Fiscal Year Ended August 31				
	2015	**2016**	**2017**	**2018**	**2019**
Beginning Fund Balance	**$ 15,474,263**	**$ 17,999,385**	**$ 19,858,777**	**$ 18,620,482**	**$ 21,181,105**
Revenues:					
Local and Intermediate Sources	$ 27,533,936	$ 26,686,296	$ 24,469,982	$ 26,378,694	$ 26,337,380
State Program Revenues	11,876,872	13,523,064	12,906,586	15,920,358	14,188,763
Federal Sources & Other	1,116,044	897,876	1,025,717	1,244,483	1,287,638
Total Revenues	**$ 40,526,852**	**$ 41,107,236**	**$ 38,402,285**	**$ 43,543,535**	**$ 41,813,781**
Expenditures:					
Instruction	$ 21,164,930	$ 21,324,489	$ 21,707,359	$ 22,250,555	$ 20,911,421
Instructional Resources & Media Services	493,941	481,754	307,291	412,195	334,107
Curriculum & Instructional Staff Development	782,035	929,340	1,144,162	1,000,258	581,222
Instructional Leadership	682,570	820,348	502,162	417,482	725,313
School Leadership	3,102,581	3,206,309	3,200,511	2,505,259	2,644,393
Guidance, Counseling & Evaluation Services	1,108,342	1,001,109	1,021,658	886,742	1,027,083
Social Work Services	46,293	75,789	-	4,798	43,027
Health Services	433,421	422,701	414,076	489,921	472,559
Student (Pupil) Transportation	2,266,483	1,730,866	2,075,354	1,681,767	2,870,434
Cocurricular/Extracurricular Activities	1,385,364	1,986,208	1,836,476	2,109,673	2,190,288
General Administration	1,472,692	1,679,446	1,753,124	1,700,130	1,727,582
Plant Maintenance and Operations	3,739,887	3,487,642	3,758,593	5,313,278	7,783,475
Security and Monitoring Services	336,025	447,189	386,254	436,441	434,715
Data Processing Services	275,844	651,839	876,151	1,130,314	1,103,784
Community Services	3,946	5,610	7,752	29,094	188,482
Facilities Acquisition and Construction	-	281,432	41,125	-	-
Other Intergovernmental Charges	707,376	715,773	662,894	712,128	701,268
Total Expenditures	**$ 38,001,730**	**$ 39,247,844**	**$ 39,694,942**	**$ 41,080,035**	**$ 43,739,153**
Excess (Deficiency) of Revenues over Expenditures	$ 2,525,122	$ 1,859,392	$ (1,292,657)	$ 2,463,500	$ (1,925,372)
Other Resources and (Uses):					
Sale of Real or Personal Property	$ -	$ -	$ 54,362	$ 97,123	$ -
Transfer Out	-	-	-	-	(28,063)
Total Other Resources (Uses)	**$ -**	**$ -**	**$ 54,362**	**$ 97,123**	**$ (28,063)**
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	$ 2,525,122	$ 1,859,392	$ (1,238,295)	$ 2,560,623	$ (1,953,435)
Ending Fund Balance [(2)]	**$ 17,999,385**	**$ 19,858,777**	**$ 18,620,482**	**$ 21,181,105**	**$ 19,227,670**

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D hereto for a discussion of the 2019/20 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.
(2) Estimated General Fund Balance for the period ending August 31, 2020 totaled $16,151,000. This decrease from the prior fiscal year's General Fund Balance is attributable to planned use for construction. The District anticipates another planned use of $2.4 million during fiscal year 2020/2021 for additional construction projects.

CHANGE IN NET ASSETS [1]

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
Revenues:					
Program Revenues:					
Charges for Services	$ 692,732	$ 837,021	$ 820,232	$ 1,099,889	$ 707,811
Operating Grants and Contributions	13,046,773	12,296,129	10,398,020	867,866	7,705,468
Capital Grants and Contributions	73,278	328,894	490,114	-	-
General Revenues:					
Property Taxes Levied for General Purposes	26,720,071	25,752,062	23,857,307	24,716,424	25,289,798
Property Taxes Levied for Debt Service	-	6,943,008	6,497,633	6,826,055	7,006,973
State Aid - Formula Grants	10,195,965	11,742,324	11,000,283	13,995,027	12,462,475
Grants and Contributions Not Restricted	-	-	-	-	4,049,732
Investment Earnings	81,871	403,068	513,944	454,061	691,173
Loss on Capital Asset Dispositions	-	-	(8,876,206)	-	-
Transfer From Student Activity Funds	-	-	217,731	-	-
Miscellaneous	598,721	644,904	426,705	164,869	1,394,772
Total Revenue	$ 51,409,411	$ 58,947,410	$ 45,345,763	$ 48,124,191	$ 59,308,202
Expenses:					
Instruction	$ 27,374,384	$ 27,750,069	$ 26,471,019	$ 16,470,899	$ 27,946,828
Instruction Resources & Media Services	523,793	515,172	330,025	361,362	483,274
Curriculum & Staff Development	1,022,545	1,155,968	1,412,561	793,024	859,436
Instructional Leadership	1,537,433	1,705,568	695,406	612,722	1,763,359
School Leadership	3,155,456	3,301,973	3,324,581	1,547,263	3,021,013
Guidance, Counseling & Evaluation Services	1,459,340	1,471,104	1,340,589	663,979	1,662,138
Social Work Services	46,210	76,375	-	4,726	43,027
Health Services	443,798	437,038	421,137	283,569	498,452
Student Transportation	1,597,691	1,683,057	1,667,902	1,141,121	2,244,915
Food Service	2,987,902	2,987,297	2,969,632	2,312,041	2,915,933
Cocurricular/Extracurricular Activities	1,461,880	1,658,463	2,440,913	2,039,033	2,887,204
General Administration	1,478,486	1,727,717	1,808,721	1,119,911	1,846,032
Plant Maintenance & Operations	3,842,679	3,674,874	4,038,920	9,245,015	8,692,015
Security and Monitoring Services	303,991	383,762	394,551	236,098	493,030
Data Processing Services	318,027	623,784	1,307,989	1,038,323	1,268,538
Community Services	112,581	79,923	18,008	34,808	211,561
Debt Service - Interest on Long Term Debt	130,696	3,307,493	3,454,037	3,624,125	3,546,185
Debt Service - Bond Issuance Cost and Fees	833,269	172,318	750	189,797	1,500
Major Renovations and Repairs	-	-	6,809,724	473,053	-
Other Intergovernmental Charges	707,376	715,773	662,894	712,128	701,268
Total Expenditures	$ 49,337,537	$ 53,427,728	$ 59,569,359	$ 42,902,997	$ 61,085,708
Change in Net Assets	$ 2,071,874	$ 5,519,682	$ (14,223,596)	$ 5,221,194	$ (1,777,506)
Beginning Net Assets	$ 41,748,566	$ 36,830,883	$ 42,350,565	$ 28,126,969	$ (4,059,880)
Prior Period Adjustment	$ (6,989,557) [2]	$ -	$ -	$ (37,408,043) [3]	$ -
Ending Net Assets	$ 36,830,883	$ 42,350,565	$ 28,126,969	$ (4,059,880)	$ (5,837,386)

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted in the 2002 fiscal year.
(2) For 2015, the District adopted GASB 68 during 2015, which restated the District's net pension liability.
(3) The 2018 Prior Period Adjustment was the result of implementation of GASB Statement 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions).

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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MARSHALL INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Marshall Independent School District is a mineral producing, industrial and lumbering area. Included in the District is the City of Marshall, the county seat of Harrison County and an important east Texas industrial and commercial center.

Harrison County, Texas is an east Texas county bordering Louisiana. The county is traversed by Interstate Highway 20, U.S. Highways 59 and 80, State Highways 43, 49, and 154 and 13 farm-to-market roads.

Source: Texas Municipal Report for Marshall ISD and Harrison County.

Enrollment Statistics

Year Ending 8/31	Enrollment
2007	5,733
2008	5,743
2009	5,802
2010	5,776
2011	5,829
2012	5,774
2013	5,554
2014	5,541
2015	5,547
2016	5,580
2017	5,492
2018	5,439
2019	5,341
2020	5,336
Current	4,992

District Staff

Teachers	376
Auxiliary Personnel	142
Teachers' Aides & Secretaries	201
Administrators	44
Other Professional Staff	102
Total	865

Facilities

Campus	Grades	Current Enrollment	Capacity	Year Built	Year of Addition/ Renovation
Marshall Early Childhood Center	HS – PK - K	225	630	1949	1968, 1988, 2019
David Crockett Elementary School	K-5	601	750	2017	N/A
Price T. Young Elementary School	K-5	397	750	2017	N/A
Sam Houston Elementary School	K-5	514	900	1964	2017
William B. Travis Elementary School	K-5	584	750	2017	N/A
Marshall Junior High	6-8	1,194	1,300	2017	N/A
Marshall High School	9-12	1,359	2,400	1979	1988, 1993, 2020
Marshall Early Graduation School	6-12	188	450	1959	1988, 1993, 2020

Principal Employers within the District

Name of Company	Type of Business	Number of Employees
Eastman Chemical Company	Chemical Manufacturer	1,520
Trinity Industries	Tank Car Manufacturer	1,020
Marshall ISD	Public Education	865
Good Shepard Medical Center – Marshall	Medical Services/Hospital	640
Blue Cross Blue Shield of Texas	Insurance Claims Processing	390
Fowler Transportation	Transportation Services	350
Neiman Marcus National Service Center	National Distribution Center	350

Unemployment Rates

	November 2018	November 2019	November 2020
Harrison County	3.9%	3.9%	9.3%
State of Texas	3.5%	3.4%	8.0%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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February 11, 2021

MARSHALL INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021
DATED AS OF FEBRUARY 1, 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF $58,625,000

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

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) the Escrow and Trust Agreement, dated as of November 16, 2020, between the District and BOKF, NA, Dallas, Texas, as Escrow Agent (the *Escrow Agreement*), (iii) the verification report of Public Finance Partners LLC with respect to the adequacy of certain escrowed funds and securities to accomplish the refunding purposes of the Bonds (the *Report*), and (iv) each of the executed Initial Bonds (as defined in the Order), numbered TR-1 and PCAB-1, respectively.

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

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

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

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

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

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

Respectfully,

APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2019

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MARSHALL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE

YEAR ENDED AUGUST 31, 2019

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MARSHALL INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
the Year Ended August 31, 2019

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MARSHALL INDEPENDENT SCHOOL DISTRICT
Annual Financial Report for
the Year Ended August 31, 2019

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MARSHALL INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD

Marshall Independent School District	Harrison	102-902
Name of School District	County	County-District Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ________ disapproved for the year ended August 31, 2019, at a meeting of the Board of Trustees of such school district on the 21st day of January, 2020.

Signature of Board Secretary

Signature of Board President

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

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FINANCIAL SECTION

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Certified Public Accountants

Goff&Herrington,P.C.

A.J. Goff, CPA
Ronnie Herrington, CPA
Daniel Raney, CPA

P.O. Box 153320 ● Lufkin, TX. 75915-3320 ● (936) 634-2345 ● Fax:(936) 622-6823

Independent Auditor's Report

Members of the Board of Trustees of
Marshall Independent School District
Marshall, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall Independent School District (District), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall Independent School District, as of August 31, 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 5–11, the budgetary comparison schedule on page 49, and the Teacher's Retirement System of Texas pension and OPEB schedules on pages 50-55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining schedules and required Texas Education Agency (TEA) schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining schedules, required TEA 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 schedules, required TEA 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 January 10, 2020, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Districts's internal control over financial reporting and compliance.

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants
Lufkin, Texas

January 10, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Marshall Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2019. Please read this section in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was a deficit balance of ($5,837,386) as of August 31, 2019.
- During the year ended August 31, 2019, the District's net position decreased by $1,777,506.
- The District generated $59,308,202 in taxes and other revenues from governmental activities, and the total cost of the District's programs was $61,085,708.
- The general fund reported a fund balance of $19,227,670, of which $19,140,302 was unassigned and spendable at August 31, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts - **management's discussion and analysis** (this section), the **basic financial statements**, and **required supplementary information**. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information further explains and supports the information in the financial statements.

Government-wide Financial Statements

The District's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's finances. Financial reporting at this level uses a perspective similar to that found in the private sector.

The first of these government-wide financial statements is the **Statement of Net Position.** This is the District wide statement of financial position presenting information that includes all of the District's assets, deferred inflows and outflows of resources, and liabilities, with the difference reported as **net position**. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non financial factors such as changes to the District's tax base.

The second government-wide financial statement is the **Statement of Activities**, which reports how the District's net position changed during the current period. All current revenues and expenses are included regardless of when the cash is received or paid.

The government-wide financial statements of the District include the governmental activities of the District. These are the basic services such as instruction, extracurricular activities, curriculum and staff development, health services, and administration. Property taxes, state aid, and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

Governmental funds - Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long term focus of the government-wide financial statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them.

Internal Service funds - The District's internal service fund reports the activities that provide supplies and services for the District's other programs and activities.

Fiduciary funds - The District is the trustee, or fiduciary, for money raised by student activities. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

The accompanying notes to the financial statements provide essential information to a full understanding of the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was a deficit balance of ($5,837,386) as of August 31, 2019. The following table provides a summary of the District's net position.

The District's Net Position

	2019	2018	% Change
Current and Other Assets	27,846,505	31,320,307	(11.1)%
Capital and Non-Current Assets	107,974,103	109,904,547	(1.8)%
Total Assets	135,820,608	141,224,854	(3.8)%
Deferred outflows	10,009,063	3,378,122	196.3%
Total Deferred Outflows of Resources	10,009,063	3,378,122	196.3%
Other Liabilities	3,829,386	5,696,930	(32.8)%
Long Term Liabilities	137,540,374	131,683,589	4.4%
Total Liabilities	141,369,760	137,380,519	2.9%
Deferred inflows	10,297,297	11,282,337	(8.7)%
Total Deferred Inflows of Resources	10,297,297	11,282,337	(8.7)%
Net Position:			
Net investment in Capital Assets	9,732,759	8,698,825	11.9%
Restricted	3,608,867	2,880,378	25.3%
Unrestricted	(19,179,012)	(15,639,083)	22.6%
Total Net Position	(5,837,386)	(4,059,880)	43.8%

The District's restricted net position of $3,608,867 consists of $1,165,716 restricted for food service, $10,357 restricted for the state textbook program, $398,112 restricted for campus activities, and $2,034,682 restricted for debt service.

Changes in Net Position. The District's total revenues were $59,308,202. A significant portion, 21.01 percent, comes from state aid-formula grants. Property taxes represent 54.46 percent of the District's revenue. The rest of the District's revenue comes from federal operating grants, charges for services, investment earnings, and other local sources.

The total cost of all programs and services was $61,085,708; 65.08 percent of these costs are for instructional and student services.

Governmental Activities

The following table provides a summary of the District's changes in net position.

Changes in the District's Net Position

Revenues:	2019	2018	% Change
Program Revenues:			
Charges for services	707,811	1,099,889	(35.6)%
Operating grants	7,705,468	867,866	787.9%
General Revenues:			
Property taxes	32,296,771	31,542,479	2.4%
State aid - formula	12,462,475	13,995,027	(11.0)%
Investment earnings	691,173	454,061	52.2%
Other general revenues	5,444,504	164,869	3202.3%
Total revenues	59,308,202	48,124,191	23.2%
Expenses:			
Instructional and instructional related	29,289,538	17,625,285	66.2%
Instructional and school leadership	4,784,372	2,159,985	121.5%
Counseling, social, health, and community services	2,415,178	987,082	144.7%
Transportation	2,244,915	1,141,121	96.7%
Food services	2,915,933	2,312,041	26.1%
Extracurricular	2,887,204	2,039,033	41.6%
General administration	1,846,032	1,119,911	64.8%
Plant maintenance and security	8,692,015	9,245,015	(6.0)%
Security and data processing services	1,761,568	1,274,421	38.2%
Debt services	3,547,685	3,813,922	(7.0)%
Major renovations and repairs	-	473,053	(100.0)%
Other intergovernmental charges	701,268	712,128	(1.5)%
Total expenses	61,085,708	42,902,997	42.4%
Increase (Decrease) in Net Position	(1,777,506)	5,221,194	(134.0)%
Beginning Net Position	(4,059,880)	28,126,969	(114.4)%
Prior period adjustment	-	(37,408,043)	(100.0)%
Ending Net Position	(5,837,386)	(4,059,880)	43.8%

The District's 2019 maintenance and operations property tax rate of $1.04 and 2019 interest and sinking property tax rate of $0.29 are the same as last year's rates. The District's total property tax revenue increased 2.39% percent due to a slight increase in property values.

The cost of governmental activities may be summarized as follows:

- The cost of all governmental activities this year was $61,085,708.
- The amount that our taxpayers paid for these activities through property taxes was $32,296,771.
- Some of the cost was paid by those who directly benefitted from the programs ($707,811), or
- By operating grants ($7,705,468).

The following table presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Net Cost of Selected District Functions

	Total cost of services			Net cost of services		
	2019	2018	% Change	2019	2018	% Change
Instruction	27,946,828	16,470,899	69.7%	24,357,937	17,109,051	42.4%
School leadership	3,021,013	1,547,263	95.2%	2,997,005	2,064,083	45.2%
Extracurricular Activities	2,887,204	2,039,033	41.6%	2,730,633	1,907,595	43.1%
Maintenance & operations	8,692,015	9,245,015	(6.0)%	8,662,419	9,097,471	(4.8)%
Debt Service - Interest	3,547,685	3,624,125	(2.1)%	3,547,685	3,492,650	1.6%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled $57,959,516 a decrease of 1.45 percent from the preceding year. The net decrease is primarily due to decreased state program revenues.

The District's governmental funds ended the year with a reported combined fund balance of $22,836,537 which is $1,529,876 less than last year's ending balance of $24,366,413.

General Fund Budgetary Highlights

Over the course of the year the District revised the general fund budget as actual results were analyzed. Actual total expenditures were $3,565,511 below final budget amounts. The most significant positive variances were in the instructional and plant maintenance and operations functions, as the actual expenditures were less than anticipated. Revenues were $1,185,617 above the final budgeted amount as local and intermediate sources and federal program revenues were more than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had invested $136,825,525 less depreciation of $28,851,422, in a broad range of capital assets, including land, school buildings, athletic facilities, instructional equipment, and school buses. The following table provides a summary of the District's capital assets.

District's Capital Assets
(Net of depreciation)

	Governmental Activities		
	2019	2018	% Change
Land	3,609,441	3,609,441	0.0%
Buildings & improvements	98,411,086	100,672,777	(2.2)%
Equipment & vehicles	5,953,576	5,622,329	5.9%
Net capital assets	107,974,103	109,904,547	(1.8)%

More detailed information about the District's capital assets is presented in the notes to the financial statements. In the current year, the District had expenditures related to bus purchases and kitchen upgrades. The District's 2020 budget does not include any significant capital expenditures.

Long-term Debt

The following table provides a summary of the District's long-term debt:

District's Long-term Debt

	Governmental Activities		
Unlimited Tax School Building Bonds:	2019	2018	% Change
2015 Series	72,925,000	74,920,000	(2.7)%
2016 Series	7,945,000	8,195,000	(3.1)%
2017 Series	8,880,000	9,195,000	(3.4)%
Total bonds payable	89,750,000	92,310,000	(2.8)%

At year end the District had $89,750,000 in school building bonds outstanding as shown above. The District's bonds presently carry favorable ratings with Moody's Investors Services. 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

- Appraised values used for the 2020 budget preparation are $2,535,474,773, which is a 4.63 percent increase from 2019.

- The District's average daily attendance is expected to be 4,821, which is the same as last year.

These indicators were taken into account when adopting the general fund budget for 2020. Amounts available for expenditure in the general fund budget are $46,208,734, an increase of 13.74 percent from the final 2019 budget of $40,628,164. The District will use these revenues to finance programs we currently offer. During the fiscal year ended August 31, 2020, the District will introduce the Marshall Early Graduation School. This charter school will be funded in part by a charter school startup grant.

General fund expenditures are budgeted to decrease by 7.57 percent to $43,725,494. If these estimates are realized, the District's budgetary general fund balance is expected to increase at the end of 2020.

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 accountability for the money it receives. If you have any questions about this report or need additional financial information contact the District's business office at 1305 E. Pinecrest, Marshall, Texas 75670.

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Government-Wide Financial Statements

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

Data Control Codes		Primary Government: Governmental Activities	Business-type Activities	Total
	ASSETS			
1110	Cash and cash equivalents	8,793,795	-	8,793,795
1120	Current investments	15,775,168	-	15,775,168
1220	Property taxes receivable - delinquent	4,457,452	-	4,457,452
1230	Allowance for uncollectible taxes (credit)	(3,343,089)	-	(3,343,089)
1240	Due from other governments	1,706,433	-	1,706,433
1250	Accrued interest	148,492	-	148,492
1300	Inventories	308,254	-	308,254
	Capital Assets:			
1510	Land	3,609,441	-	3,609,441
1520	Buildings, net	98,411,086	-	98,411,086
1530	Furniture and equipment, net	5,953,576	-	5,953,576
1000	Total assets	135,820,608	-	135,820,608
	DEFERRED OUTFLOWS OF RESOURCES			
1705	Deferred outflow related to TRS Pension	8,043,459	-	8,043,459
1706	Deferred outflow related to TRS OPEB	1,965,604	-	1,965,604
1700	Total deferred outflows of resources	10,009,063	-	10,009,063
	LIABILITIES			
2110	Accounts payable	522,158	-	522,158
2140	Interest payable	183,352	-	183,352
2150	Payroll deductions and withholdings payable	376,022	-	376,022
2160	Accrued wages payable	2,235,525	-	2,235,525
2190	Due to student groups	2,654	-	2,654
2200	Accrued expenses	235,799	-	235,799
2300	Unearned revenues	273,876	-	273,876
	Long Term Liabilities:			
2501	Due within one year	2,675,000	-	2,675,000
2502	Due after one year	95,566,344	-	95,566,344
2540	Net pension liability (District's share)	15,937,883	-	15,937,883
2545	Net OPEB Liability (District's share)	23,361,147	-	23,361,147
2000	Total liabilities	141,369,760	-	141,369,760
	DEFERRED INFLOWS OF RESOURCES			
2605	Deferred inflow related to TRS Pension	1,664,420	-	1,664,420
2606	Deferred inflow related to TRS OPEB	8,632,877	-	8,632,877
2600	Total deferred inflows of resources	10,297,297	-	10,297,297
	NET POSITION			
3200	Net investment in capital assets	9,732,759	-	9,732,759
3820	Restricted for Federal and State programs	1,176,073	-	1,176,073
3850	Restricted for debt service	2,034,682	-	2,034,682
3870	Restricted for campus activities	398,112	-	398,112
3900	Unrestricted net position	(19,179,012)	-	(19,179,012)
3000	Total net position	(5,837,386)	-	(5,837,386)

The accompanying notes are an integral part of this statement

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

Data Control Codes		1 **Expenses**	**Program Revenues** 3 **Charges for Services**	**Program Revenues** 4 **Operating Grants and Contributions**
	Governmental activities:			
11	Instruction	27,946,828	91,608	3,497,283
12	Instructional resources and media services	483,274	-	-
13	Curriculum and staff development	859,436	-	231,867
21	Instructional leadership	1,763,359	-	800,390
23	School leadership	3,021,013	-	24,008
31	Guidance, counseling, and evaluation services	1,662,138	-	512,886
32	Social work services	43,027	-	-
33	Health services	498,452	-	-
34	Student transportation	2,244,915	-	-
35	Food service	2,915,933	459,632	2,591,424
36	Cocurricular/extracurricular activities	2,887,204	156,571	-
41	General administration	1,846,032	-	-
51	Plant maintenance and operations	8,692,015	-	29,596
52	Security and monitoring services	493,030	-	-
53	Data processing services	1,268,538	-	-
61	Community services	211,561	-	18,014
72	Interest on long-term debt	3,546,185	-	-
73	Bond issuance costs and fees	1,500	-	-
99	Other intergovernmental charges	701,268	-	-
TG	Total governmental activities	61,085,708	707,811	7,705,468

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
GC	Grants and contributions, not restricted to specific programs
IE	Investment earnings
MI	Miscellaneous
TR	Total general revenues
CN	Change in net position
NB	Net position, beginning
NE	Net position, ending

The accompanying notes are an integral part of this statement

Program Revenues	Net (Expense) Revenue and Changes in Net Position		
5 Capital Grants and Contributions	Governmental Activities	Business Activities	Total
-	(24,357,937)	-	(24,357,937)
-	(483,274)	-	(483,274)
-	(627,569)	-	(627,569)
-	(962,969)	-	(962,969)
-	(2,997,005)	-	(2,997,005)
-	(1,149,252)	-	(1,149,252)
-	(43,027)	-	(43,027)
-	(498,452)	-	(498,452)
-	(2,244,915)	-	(2,244,915)
-	135,123	-	135,123
-	(2,730,633)	-	(2,730,633)
-	(1,846,032)	-	(1,846,032)
-	(8,662,419)	-	(8,662,419)
-	(493,030)	-	(493,030)
-	(1,268,538)	-	(1,268,538)
-	(193,547)	-	(193,547)
-	(3,546,185)	-	(3,546,185)
-	(1,500)	-	(1,500)
-	(701,268)	-	(701,268)
-	(52,672,429)	-	(52,672,429)
	25,289,798	-	25,289,798
	7,006,973	-	7,006,973
	12,462,475	-	12,462,475
	4,049,732	-	4,049,732
	691,173	-	691,173
	1,394,772	-	1,394,772
	50,894,923	-	50,894,923
	(1,777,506)	-	(1,777,506)
	(4,059,880)	-	(4,059,880)
	(5,837,386)	-	(5,837,386)

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Governmental Fund Financial Statements

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

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	ASSETS				
1110	Cash and cash equivalents	4,589,312	2,028,505	1,690,608	8,308,425
1120	Investments - current	15,775,168	-	-	15,775,168
1220	Property taxes receivable - delinquent	3,830,182	627,270	-	4,457,452
1230	Allowance for uncollectible taxes (credit)	(2,872,637)	(470,452)	-	(3,343,089)
1240	Due from other governments	874,245	-	832,188	1,706,433
1250	Accrued interest	142,316	6,176	-	148,492
1260	Due from other funds	469,284	-	-	469,284
1300	Inventories	87,368	-	220,886	308,254
1000	Total Assets	22,895,238	2,191,499	2,743,682	27,830,419
	LIABILITIES				
2110	Accounts payable	381,662	-	140,496	522,158
2150	Payroll deductions and withholdings payable	350,441	-	25,581	376,022
2160	Accrued wages payable	1,939,037	-	296,488	2,235,525
2170	Due to other funds	-	-	469,284	469,284
2190	Due to student groups	2,654	-	-	2,654
2300	Unearned revenues	36,228	-	237,648	273,876
2000	Total Liabilities	2,710,022	-	1,169,497	3,879,519
	DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable revenue - property taxes	957,546	156,817	-	1,114,363
2600	Total Inflows of Resources	957,546	156,817	-	1,114,363
	FUND BALANCES				
	Nonspendable Fund Balance				
3410	Inventories	87,368	-	-	87,368
	Restricted Fund Balance				
3450	Federal or State grants	-	-	1,176,073	1,176,073
3480	Retirement of long-term debt	-	2,034,682	-	2,034,682
	Committed Fund Balance				
3545	Other committed fund balance	-	-	398,112	398,112
3600	Unassigned fund balance	19,140,302	-	-	19,140,302
3000	Total Fund Balances	19,227,670	2,034,682	1,574,185	22,836,537
4000	Total Liabilities, Deferred Inflows and Fund Balances	22,895,238	2,191,499	2,743,682	27,830,419

The accompanying notes are an integral part of this statement

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

	Total fund balances - governmental funds	22,836,537
1	The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	249,571
2	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 $135,493,171 and the accumulated depreciation was $25,588,624. 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 governmental funds. The net effect of including beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	8,698,825
3	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 current year capital outlays and debt principal payments is to increase net position.	4,287,269
4	The current depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(3,262,798)
5	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 in the amount of $15,937,883, a deferred resource inflow related to TRS in the amount of $1,664,420, and a deferred resource outflow related to TRS in the amount of $8,043,459. This amounted to a decrease in net position in the amount of $9,558,844.	(9,558,844)
6	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 in the amount of $23,361,147, a deferred resource inflow related to TRS in the amount of $8,632,877, and a deferred resource outflow related to TRS in the amount of $1,965,604. This amounted to a decrease in net position in the amount of $30,028,420	(30,028,420)
7	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying debt proceeds, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications is to increase (decrease) net position.	940,474
	Net Position of governmental activities	(5,837,386)

The accompanying notes are an integral part of this statement

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

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES				
5700	Total local and intermediate sources	26,337,380	7,045,134	1,639,229	35,021,743
5800	State program revenues	14,188,763	130,452	996,960	15,316,175
5900	Federal program revenues	1,287,638	-	6,333,960	7,621,598
5020	Total revenues	41,813,781	7,175,586	8,970,149	57,959,516
	EXPENDITURES				
0011	Instruction	20,911,421	-	3,741,250	24,652,671
0012	Instructional resources and media services	334,107	-	16,829	350,936
0013	Curriculum and staff development	581,222	-	231,866	813,088
0021	Instructional leadership	725,313	-	802,498	1,527,811
0023	School leadership	2,644,393	-	51,137	2,695,530
0031	Guidance, counseling, evaluation services	1,027,083	-	512,886	1,539,969
0032	Social work services	43,027	-	-	43,027
0033	Health services	472,559	-	-	472,559
0034	Student transportation	2,870,434	-	-	2,870,434
0035	Food service	-	-	2,591,424	2,591,424
0036	Cocurricular/extracurricular activities	2,190,288	-	386,026	2,576,314
0041	General administration	1,727,582	2,179	793	1,730,554
0051	Plant maintenance and operations	7,783,475	-	820,785	8,604,260
0052	Security and monitoring services	434,715	-	2,959	437,674
0053	Data processing services	1,103,784	-	30,660	1,134,444
0061	Community services	188,482	-	22,037	210,519
0071	Principal on long-term debt	-	2,560,000	-	2,560,000
0072	Interest on long-term debt	-	3,941,100	-	3,941,100
0073	Bond issuance costs and fees	-	1,500	-	1,500
0081	Capital outlay	-	-	34,310	34,310
0099	Other intergovernmental charges	701,268	-	-	701,268
6030	Total expenditures	43,739,153	6,504,779	9,245,460	59,489,392
1100	Excess (deficiency) of revenues over expenditures	(1,925,372)	670,807	(275,311)	(1,529,876)
	OTHER FINANCING SOURCES (USES)				
7915	Transfers in	-	-	28,063	28,063
8911	Transfers out	(28,063)	-	-	(28,063)
7080	Total other financing sources and uses	(28,063)	-	28,063	-
1200	Net change in fund balances	(1,953,435)	670,807	(247,248)	(1,529,876)
0100	Fund balance - September 1 (beginning)	21,181,105	1,363,875	1,821,433	24,366,413
3000	Fund balance - August 31 (ending)	19,227,670	2,034,682	1,574,185	22,836,537

The accompanying notes are an integral part of this statement

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

Net change in fund balances - governmental funds	(1,529,876)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(135,703)
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 current year capital outlays and debt principal payments is to increase net position.	4,287,269
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.	(3,262,798)
Current year changes in amounts related to GASB 68 increased revenues in the amount of $644,977, but also increased expenditures in the amount of $1,749,730. The net effect on the change in the ending net position was a decrease in the amount of $1,104,753.	(1,104,753)
Current year changes in amounts related to GASB 75 increased revenues in the amount of $634,925, but also increased expenditures in the amount of $735,354. The net effect on the change in the ending net position was a decrease in the amount of $100,429.	(100,429)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying debt proceeds, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications is to increase (decrease) net position.	68,784
Change in net position of governmental activities	(1,777,506)

Proprietary Fund Financial Statements

Exhibit D-1

MARSHALL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2019

	Governmental Activities **Internal Service Funds**
ASSETS	
Current assets:	
Cash and cash equivalents	485,370
Total current assets	485,370
Total Assets	485,370
LIABILITIES	
Current liabilities:	
Accrued expenses	235,799
Total Liabilities	235,799
NET POSITION	
Unrestricted	249,571
Total Net Position	249,571

The accompanying notes are an integral part of this statement

Exhibit D-2

MARSHALL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSE, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities **Internal Service Funds**
Operating Revenues	
Local and intermediate sources	10,833
Total operating revenues	10,833
Operating Expenses	
Other operating expenses	146,536
Total operating expenses	146,536
Operating income (loss)	(135,703)
Other sources (uses)	
Transfers in	-
Transfers out	-
Total other sources (uses)	-
Total change in net position	(135,703)
Net position, beginning	385,274
Net position, ending	249,571

The accompanying notes are an integral part of this statement

Exhibit D-3

MARSHALL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities **Internal Service Funds**
Cash Flows from Operating Activities:	
Cash payments from assessments - other funds	10,833
Cash payments for insurance claims and fixed costs	(175,422)
Net cash used by operating activities	(164,589)
Net Increase (Decrease) in cash and cash equivalents	(164,589)
Cash and cash equivalents, beginning	649,959
Cash and cash equivalents, ending	485,370
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	(135,703)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in other accrued liabilities	(28,886)
Net cash used by operating activities	(164,589)

The accompanying notes are an integral part of this statement

Fiduciary Fund Financial Statements

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Exhibit E-1

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

	Agency Funds
ASSETS	
Cash and cash equivalents	27,419
Total Assets	27,419
LIABILITIES	
Due to student groups	27,419
Total Liabilities	27,419

The accompanying notes are an integral part of this statement

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

Marshall Independent School District (District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (Board) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting and financial reporting principles promulgated by the Governmental Accounting Standards Board; and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

Because the Board is elected by the public; has the authority to make decisions, appoint administrators and managers, and significantly influence operations; and has the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) in its statement No. 14, "The Financial Reporting Entity," including subsequent revisions. There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole excluding fiduciary activities. Individual funds are not displayed but the statements present Governmental Activities which include programs supported by ad valorem taxes, state aid formula grants, and federal grants.

The statement of activities reports the expenses of the District's functions offset by program revenues directly connected with the function. A function is a general operational area in the District that groups together similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the function. Program revenues include: (1) charges for services which report fees and other charges to users of the District's services such as tuition paid by students not residing in the District, athletic gate receipts, and school lunch charges; and (2) operating grants and contributions which finance annual operating activities of the District such as the Elementary and Secondary Education Act. Taxes, state aid formula grants, and other revenue sources not properly included with program revenues are reported as general revenues.

All interfund transactions between governmental funds are eliminated on the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/from on the government-wide statement of net position.

Fund Financial Statements

Fund financial statements provide reports on the financial condition and results of operations for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. Interfund activity between governmental funds appear as due to/from on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance.

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

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grant revenues are recognized when allowable expenditures are made under the provisions of the grant.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for unmatured bond principal and interest on long-term debt, which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, state aid formula grants, and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

The District does not allocate general administration or support services expenses to other functions. Depreciation expense for buildings that house District staff serving different functions is included in the direct expenses of the appropriate functions.

D. FUND TYPES AND MAJOR FUNDS

The District accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The District has established several individual funds that are organized within a separate set of self-balancing accounts comprised of assets, liabilities, fund balance, revenues, and expenditures or expenses as appropriate. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. District accounts are organized into funds as described below:

Major Governmental Funds:

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

Debt Service Fund - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt.

Non Major Governmental Funds:

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 is accounted for in a special revenue fund. Sometimes any unused balances must be returned to the grantor at the close of the specified project periods.

Capital Projects Fund - This fund accounts for proceeds from debt to be used for authorized construction, furnishing, and equipping of instructional facilities.

Other Fund Types:

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the Worker's Compensation Self-funded Insurance.

Agency Fund - The District accounts for assets held in a custodial capacity as an agent on behalf of others in the agency fund. The District's agency fund is used to account for the activities of student groups and other organizational activities.

E. OTHER ACCOUNTING POLICIES

Inventories - Inventories of supplies on the balance sheet are stated at cost. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Capital Assets and Depreciation - The District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of $5,000 or more as purchases or construction occurs. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight line method. The District has elected not to report major general infrastructure assets retroactively. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded. Estimated useful lives, in years, for capital assets are as follows:

Buildings	10-50
Improvements (including infrastructure)	5-50
Transportation equipment	7-10
Furniture, fixtures, and equipment	3-10

The governmental fund financial statements recognize capital outlay as an expense of the current period. Proceeds from the sale of capital assets are reported as other financing sources when received.

Long-Term Debt - In the government-wide financial statements, any outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and principal and interest payments are recognized as an expense of the current period.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

Net Position and Fund Balance - Net position in the statement of net position include components that are restricted for use in a federal or state program or to pay debt service on capital related debt. Unassigned fund balance in the governmental funds financial statements represents that portion of fund balance that is available for budgeting in future periods. The assigned fund balance represents fund balance that has been implicitly assigned as it is accounted for in particular funds, other than the general fund. Restricted fund balance is that portion of fund balance which is not available for appropriation or which has been legally separated for specific purposes.

As of August 31, 2019, the Special Revenue Fund restricts $1,165,716 for the food service program and $10,357 for the state textbook program. The Special Revenue fund commits $398,112 for campus activities. The Debt Service Fund restricts $2,034,682 for retirement of debt. The General fund has a nonspendable balance in the amount of $87,368 for inventories.

Compensated Absences - The District does not pay any employees accrued sick leave or vacation time upon termination or retirement. Therefore, no liability for accrued sick leave or vacation time is recorded in the government-wide or governmental fund financial statements.

Data Control Codes - These codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Resource Guide. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a Statewide database for policy development and funding plans.

Fund Balance Policy - The District reports fund balances for governmental funds in classifications based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The nonspendable classification represents assets that will be consumed or maintained intact; and, therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the restricted classification. The nature of these two classifications precludes a need for a policy from the Board. However, the Board has adopted fund balance policies for the three unrestricted classifications - committed, assigned, and unassigned.

The District's restricted fund balances represent amounts for retirement of long term debt, operation of the food service, and state programs.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures are charged to restricted balances. When the entity incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures are charged to committed, assigned and then unassigned.

Pensions - The fiduciary net position of the Teachers 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 the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB) - The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

F. BUDGETARY DATA

The Board of Trustees adopts an annual budget consistent with generally accepted accounting principles for the General Fund, the Food Service Fund (which is included in the Special Revenue Funds), and the Debt Service Fund. The District is required to present the adopted and final budgeted revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the budgetary comparison schedules.

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meeting. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year end. During the year ended August 31, 2019, the District made significant budget amendments to the student transportation function and the plant maintenance and operations function that increased overall appropriations over the original budget.
4. Each budget is monitored by the business manager at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments. 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 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 saving accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments. In compliance with the Public Funds Investments Act, the District has adopted a deposit and investment policy. The policy addresses the following risks:

Deposits

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The District's cash deposits at August 31, 2019 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The District was not exposed to custodial credit risk as all deposits were covered by depository insurance or by pledged collateral as follows:

1. Depository: Texas Bank & Trust, Longview, TX
2. The market value of securities pledged as of the date of the highest combined balance on deposit was $23,961,736.
3. The highest combined balances of cash, savings, and time deposit accounts amounted to $22,999,160 and occurred during the month of February, 2019.
4. Total amount of FDIC coverage at the time of the highest combined balance was $250,000.

Investments

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District was not exposed to credit risk at August 31, 2019.

Custodial Credit Risk - Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the District. The District did not have any investments exposed to custodial credit risk at August 31, 2019.

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District was not exposed to interest rate risk at August 31, 2019.

Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The District was not exposed to concentration of credit risk at August 31, 2019.

Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The District was not exposed to foreign currency risk at August 31, 2019.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. As of August 31, 2019, Marshall Independent School District had the following investments subject to the fair value measurement on a recurring basis:

				Fair Value Measurements Using:		
Investments by Fair Value Level:	**Rating**	**Concentration of Credit Risk**	**Balance at August 31, 2019**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Debt Securities:						
Commercial Paper	A-1/P1	83.70%	13,203,459	13,203,459	-	-
Certificates of Deposit	AAA	11.54%	1,821,235	1,821,235	-	-
Government:						
U.S. Treasury Securities	AAA	4.76%	750,474	750,474	-	-
		100.00%	15,775,168	15,775,168	-	-

B. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNEARNED REVENUE

Property Tax Calender, Property Tax Receivables, and Unearned Revenue

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. In the governmental fund financial statements, property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

Delinquent tax collections are prorated between maintenance and debt service based on rates adopted for year of the levy. Delinquent taxes receivable not paid within 60 days of year end, are recorded as deferred inflows of resources, net of an estimated allowance for uncollectible taxes. Allowances for uncollectible tax receivables are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

In the government-wide financial statements, property taxes receivable, net of an allowance for uncollectible taxes, and related revenue include all amounts due to the District regardless of when the cash is received.

Due To/From Other Governments and Unearned Revenue

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. These amounts are reported in the governmental fund financial statements as Due from Other Governments. Amounts due from federal, state, and other governments as of August 31, 2019 are summarized below:

Fund	State Entitlements	Federal Grants	State Grants	Total
General Fund	874,245	-	-	874,245
Special Revenue Fund	-	754,273	77,915	832,188
Total	874,245	754,273	77,915	1,706,433

Unearned revenues from federal, state, and other governments as of August 31, 2019 are summarized below:

	General Fund	Special Revenue Funds	Total
Season Ticket Sales	36,228	-	36,228
National Breakfast and Lunch Programs	-	237,648	237,648
Total	36,228	237,648	273,876

Deferred inflows of resources at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Unavailable Revenue - Property Taxes	957,546	156,817	1,114,363

C. INTERFUND BALANCES AND TRANSFERS

Interfund due to/from balances at August 31, 2019 consisted of the following amounts:

Due from other Governmental Funds to the General Fund:	
Special Revenue Funds	469,284

Interfund transfers for the year ended August 31, 2019 consisted of the following amounts:

	Capital Projects Fund	Special Revenue Funds	Total
Transfer to other Governmental Funds from General Fund:	25,489	2,574	28,063

Transfers are used to move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them or to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

The District disaggregates significant components of receivables and payables in the financial statements. The only receivable not expected to be collected within one year is $3,343,089 of delinquent property taxes.

E. CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Governmental Activities:				
Land	3,609,441	-	-	3,609,441
Buildings and improvements	120,224,331	22,030	-	120,246,361
Vehicles and equipment	11,659,399	1,310,324	-	12,969,723
Totals at cost	135,493,171	1,332,354	-	136,825,525
Less accumulated depreciation:				
Buildings and improvements	19,551,554	2,283,721	-	21,835,275
Vehicles and equipment	6,037,070	979,077	-	7,016,147
Total accumulated depreciation	25,588,624	3,262,798	-	28,851,422
Governmental activities capital assets, net	109,904,547	(1,930,444)	-	107,974,103

Depreciation was charged to governmental functions as follows:

Instruction	1,827,296
Instructional Resources and Media Services	107,488
Curriculum and Staff Development	21,498
Instructional Leadership	42,995
School Leadership	150,483
Student Transportation	422,509
Food Services	168,072
Cocurricular/Extracurricular	235,298
General Administration	39,886
Plant Maintenance	69,078
Security and Monitoring	34,463
Data Processing	143,732
Total depreciation expense	3,262,798

F. LONG-TERM DEBT

In prior years, the District, as authorized by Texas Education Code Section 45.001 and 45.003, authorized the issuance of Unlimited Tax Refunding Bonds to provide funds for the construction, acquisition, and purchasing of equipment for new school buildings, and to refund older bonds.

Bonds currently outstanding are as follows:

- Series 2015, issued in the original amount of $82,070,000. Interest rates range from 1.50% to 5.00%. The bonds final maturity is 2040.
- Series 2016, issued in the original amount of $9,010,000. Interest rates range from 3.00% to 4.00%. The bonds final maturity is 2040.
- Series 2017, issued in the original amount of $9,500,000. Interest rates range from 2.00% to 3.00%. The bonds final maturity is 2040.

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

The sale of the Series 2015, 2016 and 2017 bond issues resulted in a premiums received, which are being amortized over the life of the respective bonds.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
Governmental Activities:					
Series 2015 school building bonds	74,920,000	-	1,995,000	72,925,000	2,095,000
Series 2016 school building bonds	8,195,000	-	250,000	7,945,000	260,000
Series 2017 school building bonds	9,195,000	-	315,000	8,880,000	320,000
Total long term debt	92,310,000	-	2,560,000	89,750,000	2,675,000
Unamortized bond premium	8,895,722	-	404,378	8,491,344	-
Total long term debt	101,205,722	-	2,964,378	98,241,344	2,675,000

Annual debt service requirements to maturity for the District's long term debt are as follows:

Year ending August 31,	Principal	Interest	Total
2020	2,675,000	3,821,975	6,496,975
2021	2,800,000	3,697,425	6,497,425
2022	2,930,000	3,566,775	6,496,775
2023	3,070,000	3,429,725	6,499,725
2024	3,215,000	3,285,950	6,500,950
2025-2029	18,420,000	14,079,950	32,499,950
2030-2034	22,575,000	9,919,400	32,494,400
2035-2039	27,715,000	4,782,481	32,497,481
2040	6,350,000	147,563	6,497,563
Totals	89,750,000	46,731,244	136,481,244

G. COMMITMENTS UNDER OPERATING LEASES

The District entered into a non-cancelable three year operating lease for District copy machines on July 31, 2018. The commitment under the operating (noncapitalized) lease agreement provides for minimum future rental payments as of August 31, 2019, as follows:

Year ending August 31,	
2020	248,831
2021	248,831
Total	497,662

Rental expense under this lease was $302,818 during the year ended August 31, 2019.

H. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the year ended August 31, 2019, revenues from local and intermediate sources reported in the governmental funds consisted of the following:

	General Fund	Debt Service Funds	Special Revenue Funds	Total
Property Taxes	24,770,764	6,860,446	-	31,631,210
Food Service	-	-	459,632	459,632
Investment earnings	611,137	50,219	21,841	683,197
Penalties, interest, and other tax	477,350	119,427	-	596,777
Insurance proceeds	7,373	-	-	7,373
Tuition and fees	91,604	-	-	91,604
Head start	-	-	384,905	384,905
Foundations, gifts, and bequests	9,852	-	368	10,220
Co-curricular student activities	156,371	-	772,483	928,854
Other	212,929	15,042	-	227,971
Total	26,337,380	7,045,134	1,639,229	35,021,743

I. PENSION PLAN AND RETIREE HEALTH PLAN

Defined Benefit Pension Plan

Plan Description. The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). 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, 78701-2698; or by calling (512) 542-6592.

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

	2019	2018
Member	7.70%	7.70%
Non-Employer Contribution Rate (State)	6.80%	6.80%
Employers	6.80%	6.80%

Contributions for the year ended August 31, 2019 are as follows:

District's 2019 Employer Contributions	$	964,433
District's 2019 Member Contributions	$	2,144,209
District's 2019 NECE On-Behalf Contributions	$	1,434,540

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 federal funding sources, a privately sponsored source.

When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees

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

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

When a school district 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 contributions rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%*
Long-term expected Investment Rate of Return	7.250%
Municipal Bond Rate	3.690%*
Inflation	2.300%
Salary Increases	3.50% to 9.50%, including inflation
Last Year Ending 8/31 in Projection Period	2116 (100 years)
Ad hoc Post Employment Benefit Changes	None

** - Sourced from fixed income municipal bonds with 20 years to maturity that include only federal, tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018*

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%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation*	Long-Term Expected Arithmetic Real Rate of Return**	Expected Contribution to Long-term Portfolio Returns
Global Equity			
U.S.	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	8.9%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	-	-
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	16%	5.2%	0.7%
Energy and Natural Resources	3%	7.5%	0.4%
Commodities	0%	-	-
Risk Parity			
Risk Parity	5%	3.7%	0.2%
Inflation Expectations			2.3%
Volatility Drag***			-0.8%
Total	**100%**		**7.2%**

** Target allocations are based on the FY 2016 model*
*** Capital Market assumptions come from Aon Hewitt (2017 Q4)*
**** The volatility drag results from the conversion between arithmetic and geometric mean returns*

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

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	$24,054,087	$15,937,883	$9,367,334

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2019, the District reported a liability of $15,937,883 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	$15,937,883
State's proportionate share that is associated with the District	23,453,743
Total	$39,391,626

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 and 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 .028956%, which was an increase of 1.24% from its proportion measured as of August 31, 2017.

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

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

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

For the year ended August 31, 2019, the District recognized pension expense of $2,231,295 and revenue of $1,434,540 for support provided by the State in the Government-wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$99,344	$391,053
Changes in actuarial assumptions	5,746,374	179,574
Difference between projected and actual investment earnings	-	302,410
Changes in proportion and difference between the employer's contribution and the proportionate share of contributions	1,233,308	791,383
Contributions paid to TRS subsequent to the measurement date	964,433	-
Total	$8,043,459	$1,664,420

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

Year Ended August 31:	Pension Expense Amount
2020	$2,475,681
2021	874,850
2022	696,668
2023	836,451
2024	853,350
Thereafter	642,039

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Other Post -Employment Benefit Plan (OPEB)

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:

Net OPEB Liability		Total
Total OPEB Liability	$	50,729,490,103
Less: Plan Fiduciary Net Position	$	798,574,633
Net OPEB Liability	$	49,930,915,470
Net Position as a Percentage of Total OPEB Liability		1.57%

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

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.

TRS-Care Plan Premium Rates
Effective January 1, 2018 - December 31, 2018

	Medicare	Non-Medicare
Retiree (or surviving spouse)	$135	$200
Retiree and spouse	$529	$689
Retiree or surviving spouse and children	$468	$408
Retiree and family	$1,020	$999

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the employees pay for fiscal year 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

	2019	2018
Member	0.65%	0.65%
Non-Employer Contribution Rate (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
District's 2019 Employer Contributions	$ 331,911	
District's 2019 Member Contributions	$ 181,004	
District's 2019 NECE On-Behalf Contributions	$ 320,042	

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.

In addition to the pension plan and TRS-Care state contributions on behalf of the District, the District is allocated a portion of the Medicare Part D retiree drug subsidy that TRS-Care receives. The amounts allocated on behalf of the District were $110,022, $90,329, and $85,712 for the years ended August 31, 2019, 2018, and 2017, respectively.

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 was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Inflation	2.300%
Single Discount Rate	3.69%*
Aging Factors	Based on plan specific experience
Election Rates	Normal retirement: 70% Participation prior to age 65 and 75% after 65.
Expenses	Third-party administrative expense related to the delivery of health care benefits are included in the age adjusted-claims cost.
Salary Increases	3.50% to 9.50%, including inflation
Ad hoc Post Employment Benefit Changes	None

** - Sourced from fixed income municipal bonds with 20 years to maturity that include only federal, tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018*

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.

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. 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.

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

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of the OPEB liability:	$27,807,791	$23,361,147	$19,843,564

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liabiity 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 in Health Care Cost Trend Rate	Current Health Care Cost Trend Rate	1% Increase in Health Care Cost Trend Rate
District's proportionate share of the OPEB liability:	$19,401,813	$23,361,147	$28,575,674

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2019, the District reported a liability of $23,361,147 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 OPEB liability	$23,361,147
State's proportionate share that is associated with the District	23,197,270
Total	$46,558,417

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

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.046787% which is a decrease of 4.63 percent from the 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:

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

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

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

For the year ended August 31, 2019, the District recognized an OPEB expense of $843,777 and revenue of $320,042 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$1,239,689	$368,673
Changes in actuarial assumptions	389,834	7,018,684
Difference between projected and actual investment earnings	4,086	-
Changes in proportion and difference between the employer's contribution and the proportionate share of contributions	84	1,245,520
Contributions paid to TRS subsequent to the measurement date	331,911	-
Total	$1,965,604	$8,632,877

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

Year Ended August 31:	Pension Expense Amount
2020	($742,456)
2021	(1,074,367)
2022	(1,074,367)
2023	(1,075,140)
2024	(1,075,582)
Thereafter	(1,625,361)

K. HEALTH CARE COVERAGE

During the year ended August 31, 2019, employees of the District were covered by a state wide health care program known as TRS-Active Care. This plan is administered by the Teacher Retirement System of Texas. The District contributed $150 per month per employee to TRS, and employees, at their option, authorized payroll withholdings to fund contributions for dependents.

L. 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 the year ended August 31, 2019, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2019, the Fund anticipates the District has no additional liability beyond the contractual obligation for payment of contribution. The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management website and have been filed with the Texas Department of Insurance in Austin.

The District has joined together with other school districts in the East Texas area to form the East Texas Educational Insurance Association (the Association), a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. During the 2018-19 school year, the District paid a fixed cost in the amount of $45,701 for the administration of claims, loss control, record keeping, and the cost of stop-loss insurance. Total workers' compensation claims amounted to $88,975 for the year. When and if other schools in the Association exceed their loss fund maximum, the District will be required to pay a percentage share of the excess. According to the financial data provided by the Association for August 31, 2018, the amount of unpaid claims including estimated incurred, but not reported (IBNR) is approximately $235,799, which has been recorded as a liability of the Internal Service Fund for the year ended August 31, 2019. Change in the liability was as follows:

Beginning claims liability	264,685
Net increase in provision	60,089
Claims paid	(88,975)
Ending claims liability	235,799

The District continues to carry commercial insurance for all other risks of loss, including commercial building and property, vehicle collision and comprehensive, and District personnel and school board errors and omissions insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three school years.

M. LITIGATION AND CONTINGENCIES

The District participates in numerous State and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the ability to collect any related receivable at August 31, 2019, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Required Supplementary Schedules

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MARSHALL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	REVENUES:				
5700	Local and intermediate sources	25,437,485	25,637,485	26,337,380	699,895
5800	State program revenues	14,205,679	14,205,679	14,188,763	(16,916)
5900	Federal program revenues	585,000	785,000	1,287,638	502,638
5020	Total revenues	40,228,164	40,628,164	41,813,781	1,185,617
	EXPENDITURES:				
0011	Instruction	22,783,962	22,521,801	20,911,421	1,610,380
0012	Instructional resources and media services	377,268	374,151	334,107	40,044
0013	Curriculum and staff development	637,680	641,111	581,222	59,889
0021	Instructional leadership	915,369	904,073	725,313	178,760
0023	School leadership	2,505,268	2,649,140	2,644,393	4,747
0031	Guidance, counseling, and evaluation services	1,042,218	1,056,942	1,027,083	29,859
0032	Social work services	46,639	51,685	43,027	8,658
0033	Health services	542,454	525,350	472,559	52,791
0034	Student transportation	1,935,024	3,004,209	2,870,434	133,775
0036	Cocurricular/extracurricular activities	2,139,892	2,253,427	2,190,288	63,139
0041	General administration	1,846,807	1,828,000	1,727,582	100,418
0051	Plant maintenance and operations	4,359,268	8,990,009	7,783,475	1,206,534
0052	Security and monitoring services	380,038	452,584	434,715	17,869
0053	Data processing services	1,051,733	1,141,265	1,103,784	37,481
0061	Community services	195,910	195,917	188,482	7,435
0099	Other intergovernmental charges	715,000	715,000	701,268	13,732
6030	Total expenditures	41,474,530	47,304,664	43,739,153	3,565,511
1100	Excess (deficiency) of revenues over expenditures	(1,246,366)	(6,676,500)	(1,925,372)	4,751,128
	OTHER FINANCING SOURCES (USES):				
7915	Transfers in	-	-	-	-
8911	Transfers out	-	-	(28,063)	(28,063)
7080	Total other financing sources (uses)	-	-	(28,063)	(28,063)
1200	Net change in fund balances	(1,246,366)	(6,676,500)	(1,953,435)	4,723,065
0100	Fund balance - September 1 (beginning)	21,181,105	21,181,105	21,181,105	-
3000	Fund balance - August 31 (ending)	19,934,739	14,504,605	19,227,670	4,723,065

The accompanying notes are an integral part of this statement

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

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.00028956	0.00028601	0.00031613	0.00033181	0.00023095
District's Proportionate share of the Net Pension Liability (Asset)	$ 15,937,883	$ 9,145,060	$ 11,946,011	$ 11,729,042	$ 6,169,048
State's Proportionate share of the Net Pension Liability (Asset) associated with the District	23,453,743	14,998,918	17,197,334	17,374,021	15,400,169
TOTAL	$ 39,391,626	$ 24,143,978	$ 29,143,345	$ 29,103,063	$ 21,569,217
District's Covered Payroll	$ 28,421,613	$ 28,869,026	$ 28,622,734	$ 28,861,523	$ 3,848,378
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	56.08%	31.68%	41.74%	40.64%	160.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.74%	82.17%	76.23%	78.43%	83.25%

NOTE: GASB 68, Paragraph 81 requires that the data in this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2018 for fiscal year 2019, August 31, 2017 for fiscal year 2018, August 31, 2016 for fiscal year 2017, August 31, 2015 for the fiscal year 2016, and August 31, 2014 for the fiscal year 2015.

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

Exhibit G-3

MARSHALL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
TEACHERS RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2019

	2019	2018	2017	2016	2015
Contractually Required Contribution	$ 964,433	$ 976,723	$ 930,165	$ 1,004,927	$ 615,318
Contribution in Relation to Contractually Required Contribution	(964,433)	(976,723)	(930,165)	(1,004,927)	(615,318)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll	$ 27,846,870	$ 28,421,613	$ 28,869,026	$ 28,622,734	$ 28,861,523
Contributions as a Percentage of Covered Payroll	3.46%	3.44%	3.22%	3.51%	2.13%

NOTE: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

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

MARSHALL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHERS RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.00046787	0.00049056
District's Proportionate share of the Net Post Employment Benefit Liability (Asset)	$ 23,361,147	$ 21,332,807
State's Proportionate share of the Net Post Employment Benefit Liability (Asset) associated with the District	23,197,270	21,926,556
TOTAL	$ 46,558,417	$ 43,259,363
District's Covered Payroll	$ 28,421,613	$ 28,869,026
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	82.20%	73.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	1.57%	0.91%

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

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

Exhibit G-5

MARSHALL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)
TEACHERS RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2019

	2019	2018
Contractually Required Contribution	$ 331,911	$ 325,031
Contribution in Relation to Contractually Required Contribution	(331,911)	(325,031)
Contribution Deficiency (Excess)	$ -	$ -
District's Covered Payroll	$ 27,846,870	$ 28,421,613
Contributions as a Percentage of Covered Payroll	1.19%	1.14%

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

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

The accompanying notes are an integral part of this statement

MARSHALL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2019

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms.

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

Changes of Assumptions.

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

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

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefits.

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

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare eligible participants.
- Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the net enrollment period.

- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute $200 per month toward their health insurance premiums.

Changes in Assumptions.

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

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

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

- 2018 thresholds of $850/$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for 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.

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Combining Schedules

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

Data Control Codes		Special Revenue Funds 211 ESEA Title I Part A	224 IDEA Part B Formula	225 IDEA Part B Preschool
	ASSETS			
1110	Cash and temporary investments	-	-	370
1240	Due from other governments	435,571	131,993	3,123
1300	Inventories	-	-	-
1000	Total Assets	435,571	131,993	3,493
	LIABILITIES			
2110	Accounts payable	7,006	630	-
2150	Payroll deductions and withholdings payable	9,358	5,595	370
2160	Accrued wages payable	140,696	28,895	3,123
2170	Due to other funds	278,511	96,873	-
2300	Unearned revenues	-	-	-
2000	Total Liabilities	435,571	131,993	3,493
	FUND BALANCES			
	Restricted Fund Balance:			
3450	Federal or State grants	-	-	-
	Committed Fund Balance:			
3545	Other committed fund balance	-	-	-
3000	Total Fund Balances	-	-	-
4000	Total Liabilities, Deferred Inflows and Fund Balances	435,571	131,993	3,493

Exhibit H-1
(Continued)

Special Revenue Funds							
226 IDEA Part B Discretionary	240 School Lunch & Breakfast Program	244 Career and Technical Basic Grant	255 Title II, A Training/ Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI B, Rural & Low Income	289 Other Federal Funds	385 Visually Impaired SSVI
-	1,201,365	-	-	-	-	-	-
-	78,918	7,348	80,492	149	-	16,679	-
-	220,886	-	-	-	-	-	-
-	1,501,169	7,348	80,492	149	-	16,679	-
-	10,183	-	-	35	-	-	-
-	7,444	-	1,163	-	-	1,164	-
-	80,178	-	8,406	-	-	-	-
-	-	7,348	70,923	114	-	15,515	-
-	237,648	-	-	-	-	-	-
-	335,453	7,348	80,492	149	-	16,679	-
-	1,165,716	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,165,716	-	-	-	-	-	-
-	1,501,169	7,348	80,492	149	-	16,679	-

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

Data Control Codes		Special Revenue Funds 410 State Textbook Fund	429 Other State Programs	461 Campus Activity Funds
	ASSETS			
1110	Cash and temporary investments	10,357	-	467,752
1240	Due from other governments	-	50,156	-
1300	Inventories	-	-	-
1000	Total Assets	10,357	50,156	467,752
	LIABILITIES			
2110	Accounts payable	-	50,156	69,640
2150	Payroll deductions and withholdings payable	-	-	-
2160	Accrued wages payable	-	-	-
2170	Due to other funds	-	-	-
2300	Unearned revenues	-	-	-
2000	Total Liabilities	-	50,156	69,640
	FUND BALANCES			
	Restricted Fund Balance:			
3450	Federal or State grants	10,357	-	-
	Committed Fund Balance:			
3545	Other committed fund balance	-	-	398,112
3000	Total Fund Balances	10,357	-	398,112
4000	Total Liabilities, Deferred Inflows and Fund Balances	10,357	50,156	467,752

Exhibit H-1
(Continued)

481 Head Start Funds	Total Nonmajor Special Revenue Funds	699 Capital Projects Fund	Total Nonmajor Governmental Funds
7,918	1,687,762	2,846	1,690,608
27,759	832,188	-	832,188
-	220,886	-	220,886
35,677	2,740,836	2,846	2,743,682
-	137,650	2,846	140,496
487	25,581	-	25,581
35,190	296,488	-	296,488
-	469,284	-	469,284
-	237,648	-	237,648
		-	
35,677	1,166,651	2,846	1,169,497
-	1,176,073	-	1,176,073
-	398,112	-	398,112
-	1,574,185	-	1,574,185
35,677	2,740,836	2,846	2,743,682

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

Data Control Codes		Special Revenue Funds 211 ESEA Title I Part A	224 IDEA Part B Formula	225 IDEA Part B Preschool
	REVENUES			
5700	Total local and intermediate sources	-	-	-
5800	State program revenues	-	-	-
5900	Federal program revenues	1,813,968	1,004,637	27,696
5020	Total Revenues	1,813,968	1,004,637	27,696
	EXPENDITURES			
0011	Instruction	1,081,342	493,208	27,696
0012	Instructional resources and media services	-	-	-
0013	Curriculum and staff development	40,484	-	-
0023	School leadership	661,962	137,142	-
0021	Instructional leadership	4,365	-	-
0031	Guidance, counseling, & evaluation	19,360	373,147	-
0035	Food service	-	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	-	-	-
0051	Facilities maintenance and operations	-	-	-
0052	Security and monitoring services	-	-	-
0053	Data processing services	-	-	-
0061	Community services	6,455	1,140	-
0081	Facilities acquisition and construction	-	-	-
6030	Total Expenditures	1,813,968	1,004,637	27,696
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-
	OTHER FINANCING SOURCES (USES)			
7915	Transfers in	-	-	-
8911	Transfers out	-	-	-
7080	Total other financing sources and uses	-	-	-
1200	Net change in fund balances	-	-	-
0100	Fund balances, beginning	-	-	-
3000	Fund balances, ending	-	-	-

Exhibit H-2
(Continued)

Special Revenue Funds							
226 IDEA Part B Discretionary	240 School Lunch & Breakfast Program	244 Career and Technical Basic Grant	255 Title II, A Training/ Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI B, Rural & Low Income	289 Other Federal Funds	385 Visually Impaired SSVI
-	474,305	-	-	-	-	-	-
-	18,311	-	-	-	-	-	3,950
177,006	2,602,709	84,495	308,924	102,602	82,080	129,843	-
177,006	3,095,325	84,495	308,924	102,602	82,080	129,843	3,950
167,527	-	72,256	166,383	89,835	73,135	14,171	3,950
-	-	-	-	-	-	-	-
-	-	12,239	117,284	10,762	530	9,100	-
-	-	-	1,286	-	-	-	-
-	-	-	19,643	-	-	-	-
9,479	-	-	4,328	-	-	106,572	-
-	2,591,424	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	88,017	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,005	8,415	-	-
-	-	-	-	-	-	-	-
177,006	2,679,441	84,495	308,924	102,602	82,080	129,843	3,950
-	415,884	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	415,884	-	-	-	-	-	-
-	749,832	-	-	-	-	-	-
-	1,165,716	-	-	-	-	-	-

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

Data Control Codes		Special Revenue Funds 410 State Textbook Fund	429 Other State Programs	461 Campus Activity Funds	481 Head Start Funds
	REVENUES				
5700	Total local and intermediate sources	-	-	772,483	384,905
5800	State program revenues	841,487	107,934	-	25,278
5900	Federal program revenues	-	-	-	-
5020	Total Revenues	841,487	107,934	772,483	410,183
	EXPENDITURES				
0011	Instruction	831,130	66,467	241,393	412,757
0012	Instructional resources and media services	-	-	16,829	-
0013	Curriculum and staff development	-	41,467	-	-
0023	School leadership	-	-	2,108	-
0021	Instructional leadership	-	-	27,129	-
0031	Guidance, counseling, & evaluation	-	-	-	-
0035	Food service	-	-	-	-
0036	Extracurricular activities	-	-	386,026	-
0041	General administration	-	-	793	-
0051	Facilities maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	1,001	-
0053	Data processing services	-	-	-	-
0061	Community services	-	-	4,022	-
0081	Facilities acquisition and construction	-	-	-	-
6030	Total Expenditures	831,130	107,934	679,301	412,757
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	10,357	-	93,182	(2,574)
	OTHER FINANCING SOURCES (USES)				
7915	Transfers in	-	-	-	2,574
8911	Transfers out	-	-	-	-
7080	Total other financing sources and uses	-	-	-	2,574
1200	Net change in fund balances	10,357	-	93,182	-
0100	Fund balances, beginning	-	-	304,930	-
3000	Fund balances, ending	10,357	-	398,112	-

Exhibit H-2
(Continued)

Total Nonmajor Special Revenue Funds	699 Capital Projects Fund	Total Nonmajor Governmental Funds
1,631,693	7,536	1,639,229
996,960	-	996,960
6,333,960	-	6,333,960
8,962,613	7,536	8,970,149
3,741,250	-	3,741,250
16,829	-	16,829
231,866	-	231,866
802,498	-	802,498
51,137	-	51,137
512,886	-	512,886
2,591,424	-	2,591,424
386,026	-	386,026
793	-	793
88,017	732,768	820,785
1,001	1,958	2,959
-	30,660	30,660
22,037	-	22,037
-	34,310	34,310
8,445,764	799,696	9,245,460
516,849	(792,160)	(275,311)
2,574	25,489	28,063
-	-	-
2,574	25,489	28,063
519,423	(766,671)	(247,248)
1,054,762	766,671	1,821,433
1,574,185	-	1,574,185

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Required TEA Schedules

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Exhibit J-1

MARSHALL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
AUGUST 31, 2019

	1	2	3	10	20	31	32	40	50
Last Ten Years Ended August 31,	Tax Rates Maint-enance	Debt Service	Assessed or Appraised Valuation	Beginning Balance September 1	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance August 31
2010 & Prior	Various	Various	-	737,105		29,813	-	(76,676)	630,616
2011	1.04000	-	2,699,120,336	140,639		8,977	-	(4,296)	127,366
2012	1.04000	-	2,792,337,897	191,397		17,309	-	(5,483)	168,605
2013	1.04000	-	2,665,172,978	203,093		22,637	-	(5,122)	175,334
2014	1.04000	-	2,569,010,881	249,062		39,059	-	(5,056)	204,947
2015	1.04000	-	2,592,806,538	332,498		53,346	-	(5,359)	273,793
2016	1.04000	0.29000	2,474,002,307	494,674		78,500	21,889	(6,476)	387,809
2017	1.04000	0.29000	2,317,373,459	661,434		114,853	32,026	(17,562)	496,993
2018	1.04000	0.29000	2,358,999,548	1,172,415		297,748	83,026	(143,624)	648,017
2019 (Current)	1.04000	0.29000	2,423,385,773	-	32,231,031	24,152,287	6,734,772	-	1,343,972
1000	Totals			4,182,317	32,231,031	24,814,529	6,871,713	(269,654)	4,457,452

MARSHALL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	REVENUES:				
5700	Local and intermediate sources	475,000	475,000	474,305	(695)
5800	State program revenues	15,000	15,000	18,311	3,311
5900	Federal program revenues	2,485,000	2,485,000	2,602,709	117,709
5020	Total revenues	2,975,000	2,975,000	3,095,325	120,325
	EXPENDITURES:				
0035	Food service	2,903,634	2,826,314	2,591,424	234,890
0051	Facilities maintenance and operations	71,366	77,320	88,017	(10,697)
6030	Total expenditures	2,975,000	2,903,634	2,679,441	224,193
1100	Excess (deficiency) of revenues over expenditures	-	71,366	415,884	344,518
	OTHER FINANCING SOURCES (USES):				
7915	Transfers in	-	-	-	-
8911	Transfers out	-	-	-	-
7080	Total other financing sources (uses)	-	-	-	-
1200	Net change in fund balances	-	71,366	415,884	344,518
0100	Fund balance - September 1 (beginning)	749,832	749,832	749,832	-
3000	Fund balance - August 31 (ending)	749,832	821,198	1,165,716	344,518

MARSHALL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	REVENUES:				
5700	Local and intermediate sources	6,755,155	6,755,155	7,045,134	289,979
5800	State program revenues	-	-	130,452	130,452
5020	Total revenues	6,755,155	6,755,155	7,175,586	420,431
	EXPENDITURES:				
0041	General administration	-	-	2,179	(2,179)
0071	Debt service - principal on long-term debt	2,560,000	2,560,000	2,560,000	-
0072	Debt service - interest on long-term debt	3,941,100	3,941,100	3,941,100	-
0073	Debt service - bond issuance costs and fees	1,000	1,000	1,500	(500)
6030	Total expenditures	6,502,100	6,502,100	6,504,779	(2,679)
1100	Excess (deficiency) of revenues over expenditures	253,055	253,055	670,807	417,752
	OTHER FINANCING SOURCES (USES):				
7915	Transfers in	-	-	-	-
8911	Transfers out	-	-	-	-
7080	Total other financing sources (uses)	-	-	-	-
1200	Net change in fund balances	253,055	253,055	670,807	417,752
0100	Fund balance - September 1 (beginning)	1,363,875	1,363,875	1,363,875	-
3000	Fund balance - August 31 (ending)	1,616,930	1,616,930	2,034,682	417,752

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Federal Awards Section

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G o f f & H e r r i n g t o n , P . C .
Certified Public Accountants

A.J. Goff, CPA
Ronnie Herrington, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Trustees of
Marshall Independent School District
Marshall, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall Independent School District (District), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2020.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as item **2019-1**.

Purpose of this Report

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

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants

January 10, 2020

G&H
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board of Trustees of
Marshall Independent School District
Marshall, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Internal Control over Compliance

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

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

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

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

Goff & Herrington, P.C.

GOFF & HERRINGTON, P.C.
Certified Public Accountants

January 10, 2020

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

Section I - Summary of Auditor's Results:

Financial Statements	
Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	___yes __X_no
Significant Deficiencies identified that are not considered to be material weaknesses?	___yes __X_no
Noncompliance material to financial statements noted?	___yes __X_no
Federal Awards	
Internal control over major programs:	
Material weaknesses identified?	___yes __X_no
Significant Deficiencies identified that are not considered to be material weaknesses?	___yes __X_no
Type of auditor's report on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__yes __X__no
Identification of Major Programs	
CFDA 10.553, 10.550 and 10.555	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as a low risk auditee?	_X_yes ___no

Section II - Findings Relating to the Financial Statements

2019-1 - Excess National Breakfast and Lunch Fund Balance

Criteria: Per Section 14.2 of the Texas Department of Agriculture's Administrative Reference Manual and as also referenced in Section 1.3.2.4 of the Texas Education Agency's (TEA) Financial Accountability Resource Guide, the National Breakfast and Lunch (Fund 240) fund balance cannot exceed three months of average expenditures.

Condition: At August 31, 2019, the National Breakfast and Lunch fund balance exceeded three months of average expenditures by $495,856.

Cause: The District has accumulated an excess in the National Breakfast and Lunch Program fund balance over the last couple of years. Expenditures have been less than revenues and this has caused the fund balance this year to be in excess of the three months of average fund balance requirement.

Effect: The District is not in compliance with the Texas Department of Agriculture's fund balance requirement.

Recommendation: The District should evaluate its future spending to ensure its National Breakfast and Lunch fund balance is within the Texas Department of Agriculture's fund balance level.

District Response: The District agrees with this finding and has developed a corrective action plan, which is presented on page 74.

District Contact: Dr. Jerry Gibson, Superintendent

MARSHALL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019

There were no findings reported for the prior year.

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

Finding 2019-1- Excess National Breakfast and Lunch Fund Balance

Condition: The National Breakfast and Lunch Program fund balance exceeded three months of average expenditures.

Corrective Action Plan: The District will evaluate its future spending to ensure its National Breakfast and Lunch fund balance is within the Texas Department of Agriculture's fund balance level.

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

(1) Federal Grantor/ Pass-Through Grantor/ Program title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. Department of Defense			
Direct Programs			
Air Force Officers Training Corps.	12.000	TXA2024	39,550
Total Department of Defense			39,550
U.S. Department of Education			
Passed through Texas Education Agency:			
ESEA Title 1, Part A - Improving Basic Programs	84.010A	19610101102902	1,751,718
Title I, Part D, Subpart 2 - Delinquent Programs	84.010A	19610103102902	62,250
*IDEA - Part B Formula	84.027A	196600011029026600	1,004,637
*IDEA - Part B, Preschool	84.173A	196610011029026600	27,696
*IDEA - Part B, Discretionary	84.027A	196600011029026600	177,006
Special Education (IDEA) cluster			1,209,339
ESEA Title II, Part A Teacher/Principal Training	84.367A	19694501102902	308,924
Title III, Part A - English Language Acquisition	84.365A	19671001102902	102,602
Title VI, Part B - Rural & Low Income	84.358B	19696001102902	82,080
Title IV, Part A, Subpart 1	84.424A	19680101102902	55,158
LEP Summer School	84.369A	69551802	5,007
Texas Hurricane Homeless Youth	84.938B	19513701102902	3,677
Emergency Impact Aid to LEAs	84.938C	51271901	66,001
Career and Technical, Basic Grant	84.048A	19420006102902	84,495
Total Department of Education			3,731,251
U.S. Department of Health and Human Services			
Direct Programs			
Medicaid Administrative Claiming Program (MAC)	93.778	065738901	29,732
Total Department of Health and Human Services			29,732
U.S. Department of Agriculture			
Passed through Texas Education Agency:			
*School Breakfast Program	10.553	71401901	624,877
*School Lunch Program	10.555	71301901	1,771,604
*Commodities	10.550	210002A	206,228
Total child nutrition cluster			2,602,709
Total Department of Agriculture			2,602,709
Total Expenditures of Federal Awards			**6,403,242**

* Clustered Programs

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

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies:

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

The modified-accrual basis of accounting is used for the governmental funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (measurable and available) and expenditures in the accounting period in which the fund liability is incurred, except that principal and interest on general long-term debt are recognized when due. Federal grant funds are considered to be earned when all eligibility requirements have been met. Any excess of revenues or expenditures is recorded as unearned revenues or accounts receivable, respectively.

The disbursement of funds received under federal grant programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. In the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types or on the overall financial position of the District at August 31, 2019.

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

Federal revenues in the accompanying financial statements include federal source revenues which are not considered federal assistance for purposes of the Schedule of Expenditures of Federal Awards. A reconciliation follows:

Total Federal Expenditure, Exhibit K-1	$6,403,242
School Health and Related Services (SHARS)	1,218,356
Total Federal Revenues, Exhibit C-3	$7,621,598

Financial Advisory Services
Provided By:

SAMCO Capital