

OFFICIAL STATEMENT

Dated July 14, 2021

Ratings:

S&P: “AAA”/“A+”

PSF Guarantee: Approval Received

(See “OTHER INFORMATION –

Ratings” and “THE PERMANENT

SCHOOL FUND GUARANTEE NEW

PROGRAM” herein)

ISSUE - Book-Entry-Only

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

**THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”
FOR FINANCIAL INSTITUTIONS**

\$7,475,000

RIVER ROAD INDEPENDENT SCHOOL DISTRICT

(Potter County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated: July 1, 2021

Due: August 15, as shown on page 2

PAYMENT TERMS . . . Interest on the \$7,475,000 River Road Independent School District Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”), will accrue from the date of the initial delivery to the Underwriters (as defined herein), will be payable February 15 and August 15 of each year commencing February 15, 2022, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see “THE BONDS - Paying Agent/Registrar”).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1207, Texas Government Code, and are direct obligations of the River Road Independent School District (the “District”), payable from the proceeds of a continuing ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District as provided in the order authorizing the Bonds (the “Bond Order”) in which the Board delegated to certain officers of the District the authority to complete the sale of the Bonds through the execution of a “Pricing Certificate” (the Bond Order and the Pricing Certificate are jointly referred to herein as the “Order”) (see “THE BONDS - Authority for Issuance”). **An application has been filed and approval received for the Bonds to be guaranteed by the Permanent School Fund (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) and (ii) pay the costs associated with the issuance of the Bonds (see “SCHEDULE I - SCHEDULE OF REFUNDED BONDS,” and “PLAN OF FINANCING - Purpose”).

MATURITY SCHEDULE

CUSIP PREFIX: 768364

See Schedules on Page 2

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

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on August 17, 2021 (the “Delivery Date”).

SAMCO CAPITAL

FROST BANK

MATURITY SCHEDULE

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2024	\$ 990,000	2.000%	0.310%	JR3
2025	1,015,000	2.000%	0.440%	JS1
2026	1,025,000	4.000%	0.550%	JT9
2027	1,070,000	2.250%	0.690%	JU6
2028	1,090,000	3.000%	0.800%	JV4
2029	1,130,000	3.000%	0.900%	JW2
2030	1,155,000	3.000%	0.980%	JX0

(Interest to accrete from date of initial delivery to Underwriters)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of CUSIP numbers.

REDEMPTION . . . The Bonds are not subject to redemption prior to maturity.

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

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

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 cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

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

OFFICIAL STATEMENT SUMMARY

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

- THE DISTRICT** The District is a political subdivision located in Potter County, Texas. The District is approximately 152 square miles in area (see “INTRODUCTION - Description of the District”).

- THE BONDS** The Bonds are issued as \$7,475,000 General Obligation Refunding Bonds, Series 2021. The Bonds are issued as serial bonds maturing on August 15 in the years 2024 through 2030, inclusive. See “THE BONDS – Description of the Bonds”.

- PAYMENT OF INTEREST** Interest on the Bonds accrues from the date of initial delivery and is payable on February 15, 2022, and each August 15 and February 15 thereafter until maturity. See “THE BONDS – Description of the Bonds”.

- AUTHORITY FOR ISSUANCE** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, and an order adopted by the Board of Trustees of the District (the “Bond Order”) in which the Board delegated to certain officers of the District the authority to complete the sale of the Bonds through the execution of a “Pricing Certificate” (the Bond Order and the Pricing Certificate are jointly referred to herein as the “Order”) (see “THE BONDS - Authority for Issuance”).

- SECURITY FOR THE BONDS** The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Order. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS - Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

- PERMANENT SCHOOL FUND GUARANTEE** The District has applied for and has received approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

- REDEMPTION** The Bonds are not subject to redemption prior to maturity.

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

- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) and (ii) pay the costs associated with the issuance of the Bonds.

- RATINGS** The Bonds are rated “A+” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”). The Bonds are expected to be guaranteed by the Permanent School Fund of the State of Texas, and S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA”. In addition, the District has three issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings”).

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita	% of Total Tax Collections
2017	6,163	\$245,319,704	\$ 39,805	\$ 11,281,607	4.60%	\$ 1,831	99.13%
2018	6,146	255,488,815	41,570	10,491,776	4.11%	1,707	100.25%
2019	6,339	267,920,519	42,265	9,843,919	3.67%	1,553	98.83%
2020	5,981	313,873,452	52,478	9,251,840	2.95%	1,547	93.51%
2021	5,758	316,134,537	54,904	8,700,219 ⁽³⁾	2.75%	1,511	93.38% ⁽⁴⁾

(1) Source: The Municipal Advisory Council of Texas.

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

(3) Includes the Bonds, which will be delivered on August 17, 2021 and excludes the Refunded Bonds.

(4) Collections as of May 31, 2021.

For additional information regarding the District, please contact:

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 Superintendent
 River Road Independent School District
 9500 US 287 North
 Amarillo, Texas 79108
 Phone: (806) 381-7800

Vince Viaille
 Managing Director
 Specialized Public Finance Inc.
 or 4925 Greenville Avenue, Suite 1350
 Dallas, Texas 75206
 Phone: (214) 373-3911

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service with the District</u>	<u>Term Expires</u>	<u>Occupation</u>
Amanda Brown President	8 Years	May, 2025	Registered Financial Advisor
Butch Dawson Vice President	6 Years	May, 2023	Weapons Quality Assurance
Danielle Coleman Secretary	2 Years	May, 2025	Pharmacy Field Support
Nikki Forrest Trustee	Newly Elected	May, 2025	Teacher/Educator
Lori Peterson Trustee	2 Years	May, 2023	Office Manager II
Melinda Powell Trustee	Newly Elected	May, 2025	Attorney
Copen Smith Trustee	6 Years	May, 2023	Security Police Officer

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>
Richard Kelley	Superintendent	27 Years
Andy Nies	Assistant Superintendent	26 Years
Lori Vickers	Finance Director	30 Years

CONSULTANTS AND ADVISORS

AuditorsJohnson & Sheldon, PLLC
Amarillo, Texas

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

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

OFFICIAL STATEMENT

RELATING TO

\$7,475,000

RIVER ROAD INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2021

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$7,475,000 River Road Independent School District Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (defined herein), except as otherwise indicated herein.

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

DESCRIPTION OF THE DISTRICT . . . The River Road Independent School District (the “District”) is a political subdivision located in Potter County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”), the members of which serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 152.01 square miles square miles in Potter County, north of the City of Amarillo, Texas. For additional information regarding the District, see “APPENDIX A – General Information Regarding the District”.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) and (ii) pay the costs associated with the issuance of the Bonds (see “SCHEDULE I - SCHEDULE OF REFUNDED BONDS”).

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds will be paid on the redemption date of the Refunded Bonds, from funds to be deposited with the Deposit Agent (as defined herein) pursuant to a Deposit Agreement by and between the District and BOKF, NA, Dallas, Texas (the “Deposit Agent”). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters, the District will deposit with the Deposit Agent the full cash amount required to pay all amounts coming due on the Refunded Bonds the redemption date and to accomplish the discharge and final payment of the Refunded Bonds on the redemption date. Such funds will be held by the Deposit Agent in a trust clearing account pending their disbursement to redeem the Refunded Bonds on the redemption date. By the deposit with the Deposit Agent in such trust clearing account, the District will have effected the defeasance of the Refunded Bonds in accordance with the applicable law.

Specialized Public Finance Inc., acting as Financial Advisor to the District, will provide a sufficiency certificate (the “Certificate”) verifying at the time of delivery of the Bonds to the Underwriters that the full cash amount deposited with the Deposit Agent will be sufficient to pay on the redemption date the principal of and interest on the Refunded Bonds. The Certificate will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

By the deposit of the Bond proceeds and cash, if any, with the Deposit Agent, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Deposit Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated July 1, 2021. The Bonds mature on August 15 in each of the years and in the amounts shown on page 2. Interest on the Bonds will accrue from the date of the initial delivery to the Underwriters (anticipated to be August 17, 2021), will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2022, until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, and are direct obligations of the District, payable from the proceeds of a continuing ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District as provided in the order authorizing the Bonds (the “Bond Order”) in which the Board delegated to certain officers of the District the authority to complete the sale of the Bonds through the execution of a “Pricing Certificate” (the Bond Order and the Pricing Certificate are jointly referred to herein as the “Order”).

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

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

REDEMPTION . . . The Bonds are not subject to redemption prior to maturity.

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

Under current Texas law, upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

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

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

DTC, the world's largest 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, 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 Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The 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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to

ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners; or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 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 dates 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 in 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to DTC is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds of either or both series at any time by giving reasonable notice to the District and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

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

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

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

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

In the event the Book-Entry-Only System should be discontinued with respect to the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

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

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

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

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

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

SOURCES OF FUNDS:

Par Amount of Bonds	\$ 7,475,000.00
Reoffering Premium	930,113.75
Total Sources of Funds	<u>\$ 8,405,113.75</u>

USES OF FUNDS:

Deposit to Deposit Agent	\$ 8,231,068.88
Underwriters Discount	54,412.31
Costs of Issuance/Rounding Amount	119,632.56
Total Uses of Funds	<u>\$ 8,405,113.75</u>

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. 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, mitigation, and phased reopening of the State. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 became effective on March 10, 2021 and remains in effect until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34, in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. Executive Order GA-36 required TEA to revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. Such guidance has since been implemented. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <http://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

On March 12, 2021, TEA issued updated public planning health guidance in accordance with Executive Order GA-34 to address on campus and virtual instruction, administrative and extracurricular activities, and school visits. 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, and then again provided at time of enrollment or at the earliest practical time after enrollment) 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 in prevent the spread of COVID-19. Pursuant to Executive Order GA-36, TEA shall revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. Such guidance has been issued.

The TEA 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, TEA has announced that the State will provide a "hold harmless" to Texas school systems for the 2020-2021 school year. Under this "hold harmless" provision, state funding will be made available to school districts in line with attendance projections made prior to the public health crisis even if the district has experienced a decline in enrollment and attendance so long as the district maintains or increases its current

level of on-campus attendance. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the 2020-2021 school year, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

HISTORY AND PURPOSE . . . The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and four citizen members appointed by the Governor. (See “2019 Texas Legislative Session” for a description of legislation that changed the composition of the SLB). As of August 31, 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 ongoing 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, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “Ratings” herein.

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations		
Fiscal Year Ending 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⁾

School District Bonds			Charter District Bonds			Totals	
FYE 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount	
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 (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. The Regular Session of the 87th Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021. The Governor has called a special legislative session to convene on July 8, 2021. The agenda for such special session and any other special sessions called by the Governor could include items that could affect the District and/or its finances. See “– 2021 Legislative Session” herein.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2021 LEGISLATIVE SESSION. . . The 87th Texas Legislature concluded on May 31, 2021. When the Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called a special legislative session to convene on July 8, 2021. The agenda has not been announced at this time Such agenda could include items affecting the District or its finances.

During the legislative session, the Legislature approved a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures, among other legislation affecting school districts and the administrative agencies that oversee school districts. The District is in the process of evaluating the legislation that passed during the 87th Texas Legislative’s Regular Session and how it may impact the District. The District can make no representations or predictions regarding the impact of the legislation passed at this time.

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT’S FINANCIAL CONDITION . . . 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”.

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AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 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 Potter County Appraisal District (collectively, 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 "TAX INFORMATION – 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 market value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

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

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

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

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

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

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

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 historical 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. Thus, purely economic, non-physical damage to property caused by the COVID-19 disaster is not eligible for the temporary tax exemption provided by section 11.35 of the Tax Code.” Tex. Att’y Gen. Op. No. KP-0299 (2020).

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

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

TAX LIMITATION AGREEMENTS . . . The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. The 87th Texas Legislature did not vote to extend this program, which is now scheduled to expire by its terms, effective December 31, 2022 (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”).

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM PROPERTY TAXATION – District Application of Tax Code” herein.

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

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

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

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

DISTRICT APPLICATION OF TAX CODE . . . The District grants the state-mandated exemptions to the market value of all residence homesteads in the amount of \$25,000; an exemption to the market value of the residence homestead of persons who are at least 65 years of age or disabled of \$10,000; and, disabled veterans are granted exemptions ranging from \$2,000 to \$10,000. The District has not granted an additional exemption of 20% of the market value of residence homesteads.

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

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

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

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

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

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

The District does not tax freeport property.

The District has not adopted a tax abatement policy.

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 in accordance with the provisions of Article 2784e-1, Tex. Rev. Civ. Stats. Ann., 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 and Source of Payment").

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before 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, 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 for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the 50-cent Test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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.

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).

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.

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.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2020/2021 Market Valuation Established by Potter County Appraisal District (excluding totally exempt property)		\$ 407,385,921
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemption (State Mandated)	\$ 41,121,189	
Disabled Veterans Exemption	3,815,230	
Productivity Loss	36,929,673	
Capped Value Loss	920,741	
Homestead Exemption (State Mandated over 65 or Disabled)	7,160,510	
Miscellaneous	<u>1,304,041</u>	<u>91,251,384</u>
2020/2021 Taxable Assessed Valuation		<u>\$ 316,134,537</u>
Debt Payable from Ad Valorem Taxes (as of 5/31/21)		\$ 1,225,219 ⁽¹⁾
The Bonds		<u>7,475,000</u>
Funded Debt Payable from Ad Valorem Taxes		<u>\$ 8,700,219</u>
Debt Service Fund as of 5/31/21		\$ 912,971
Ratio Total Tax Supported Debt to Taxable Assessed Valuation		2.75%

2021 Estimated Population - 5,758
Per Capita Taxable Assessed Valuation - \$54,904
Per Capita Funded Debt - \$1,511

⁽¹⁾ Excludes the Refunded Bonds.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended,					
	2021		2020		2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 278,417,800	68.34%	\$ 266,063,562	63.28%	\$ 253,179,762	67.57%
Real, Residential, Multi-Family	151,378	0.04%	48,441	0.01%	44,808	0.01%
Real, Vacant Lots/Tracts	11,072,120	2.72%	10,910,339	2.60%	11,187,890	2.99%
Real, Acreage (Land Only)	39,556,122	9.71%	39,582,430	9.41%	39,346,868	10.50%
Real, Farm and Ranch Improvements	2,049,633	0.50%	2,030,982	0.48%	2,204,040	0.59%
Real, Commercial	8,735,564	2.14%	7,810,430	1.86%	7,277,227	1.94%
Real, Oil, Gas and Mineral Reserves	5,901,100	1.45%	11,972,860	2.85%	9,390,260	2.51%
Real and Tangible Personal, Utilities	42,407,913	10.41%	61,524,896	14.63%	32,734,651	8.74%
Tangible Personal, Commercial	13,493,861	3.31%	15,104,520	3.59%	13,268,438	3.54%
Tangible Personal, Other, Mobile Homes	5,577,494	1.37%	5,334,763	1.27%	5,962,465	1.59%
Real Property, Inventory	20,000	0.00%	26,256	0.01%	51,280	0.01%
Special Inventory	2,936	0.00%	14,948	0.00%	27,834	0.01%
Total Appraised Value Before Exemptions	\$ 407,385,921	100.00%	\$ 420,424,427	100.00%	\$ 374,675,523	100.00%
Adjustments	-		-		(18,144,759)	
Less: Total Exemptions/Reductions	(91,251,384)		(90,171,267)		(88,610,245)	
Taxable Assessed Value	<u>\$ 316,134,537</u>		<u>\$ 330,253,160</u>		<u>\$ 267,920,519</u>	

Category	Taxable Appraised Value for Fiscal Year Ended,			
	2018		2017	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 242,403,293	67.17%	\$ 231,071,129	66.63%
Real, Residential, Multi-Family	40,222	0.01%	40,222	0.01%
Real, Vacant Lots/Tracts	11,054,310	3.06%	10,901,396	3.14%
Real, Acreage (Land Only)	39,452,729	10.93%	38,734,243	11.17%
Real, Farm and Ranch Improvements	1,959,449	0.54%	1,840,923	0.53%
Real, Commercial	7,100,466	1.97%	6,885,072	1.99%
Real, Oil, Gas and Mineral Reserves	5,871,350	1.63%	5,531,120	1.59%
Real and Tangible Personal, Utilities	33,386,703	9.25%	31,383,090	9.05%
Tangible Personal, Commercial	13,862,674	3.84%	14,712,782	4.24%
Tangible Personal, Other, Mobile Homes	5,597,606	1.55%	5,467,317	1.58%
Real Property, Inventory	160,195	0.04%	212,708	0.06%
Special Inventory	12,826	0.00%	7,873	0.00%
Total Appraised Value Before Exemptions	\$ 360,901,823	100.00%	\$ 346,787,875	100.00%
Adjustments	(16,579,685)		(14,936,842)	
Less: Total Exemptions/Reductions	(88,833,323)		(86,531,329)	
Taxable Assessed Value	<u>\$ 255,488,815</u>		<u>\$ 245,319,704</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Potter County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2017	6,163	\$ 245,319,704	\$ 39,805	\$ 11,281,607	4.60%	\$ 1,831
2018	6,146	255,488,815	41,570	10,491,776	4.11%	1,707
2019	6,339	267,920,519	42,265	9,843,919	3.67%	1,553
2020	5,981	313,873,452	52,478	9,251,840	2.95%	1,547
2021	5,758	316,134,537	54,904	8,700,219 ⁽³⁾	2.75%	1,511

(1) Source: The Municipal Advisory Council of Texas.

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

(3) Includes the Bonds, which will be delivered on August 17, 2021 and excludes the Refunded Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		Local Maintenance	Interest and Sinking Fund			
2017	\$ 1.3500	\$ 1.0900	\$ 0.2600	\$ 3,289,219	96.15%	99.13%
2018	1.3500	1.0900	0.2600	3,449,099	96.19%	100.25%
2019	1.3500	1.0900	0.2600	3,616,927	95.97%	98.83%
2020	1.2765	1.0165	0.2600	3,972,721	89.91%	93.51%
2021	1.2628	1.0028	0.2600	3,992,147	91.16% ⁽¹⁾	93.38% ⁽¹⁾

(1) Collections as of May 31, 2021.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2020/2021 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
BNSF Railway Company	Railroad	\$ 13,163,793	4.16%
Oncor NTU (FKA Sharyland)	Electronic Transmission Line	10,656,510	3.37%
Southwestern Public Service	Electric Utility	6,348,126	2.01%
Atmos Energy	Gas Utility	4,806,150	1.52%
Bob Gibson Agent	Oil - Gas - Mineral Properties	2,055,190	0.65%
Evenson Trucking Co	Trucking	1,990,190	0.63%
Gray Media Group Inc	KDFA - 7900 Broadway	1,981,999	0.63%
Scout Energy Management LLC	Pipeline	1,915,330	0.61%
El Paso Natural Gas	Oil & Gas	1,741,430	0.55%
LX Cattle Co	AG/Farm/Ranch	1,522,111	0.48%
		<u>\$ 46,180,829</u>	<u>14.61%</u>

TABLE 6 – TAX ADEQUACY ⁽¹⁾

Principal and Interest Requirements, 2021	\$ 1,129,926
\$0.3724 Tax Rate at 96.00% Collection Produces	\$ 1,130,194
Average Annual Principal and Interest Requirements, 2021 - 2030	\$ 1,180,578
\$0.3891 Tax Rate at 96.00% Collection Produces	\$ 1,180,876
Maximum Principal and Interest Requirements, 2025	\$ 1,201,625
\$0.3960 Tax Rate at 96.00% Collection Produces	\$ 1,201,817

(1) This table does not take into consideration the State Allotment to subsidize existing debt service as provided under the Tier III guidelines.

ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Funded Debt As of 5/31/21	Estimated % Applicable	District's Overlapping Funded Debt As of 5/31/21
River Road ISD	\$ 8,700,219 ⁽¹⁾	100.00%	\$ 8,700,219 ⁽¹⁾
Amarillo JCD	67,770,000	0.68%	460,836
City of Amarillo	191,923,000	0.67%	1,285,884
Potter County	70,980,000	3.75%	2,661,750
Total Direct and Overlapping Tax Supported Debt			\$ 13,108,689
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			4.15%
Per Capita Overlapping Tax Supported Debt			\$ 2,277

(1) Includes the Bonds, which will be delivered on August 17, 2021 and excludes the Refunded Bonds.

DEBT INFORMATION

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Period Ending 12/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2021	\$ 496,484	\$ 633,442	\$ 1,129,926	\$ -	\$ -	\$ -	\$ 1,129,926	
2022	383,639	566,362	950,000	-	205,278	205,278	1,155,278	
2023	345,097	604,903	950,000	-	206,425	206,425	1,156,425	
2024	-	-	-	990,000	206,425	1,196,425	1,196,425	
2025	-	-	-	1,015,000	186,625	1,201,625	1,201,625	37.13%
2026	-	-	-	1,025,000	166,325	1,191,325	1,191,325	
2027	-	-	-	1,070,000	125,325	1,195,325	1,195,325	
2028	-	-	-	1,090,000	101,250	1,191,250	1,191,250	
2029	-	-	-	1,130,000	68,550	1,198,550	1,198,550	
2030	-	-	-	1,155,000	34,650	1,189,650	1,189,650	100.00%
	<u>\$ 1,225,219</u>	<u>\$ 1,804,707</u>	<u>\$ 3,029,926</u>	<u>\$ 7,475,000</u>	<u>\$ 1,300,853</u>	<u>\$ 8,775,853</u>	<u>\$ 11,805,779</u>	

(1) Outstanding Debt does not include loans payable or lease/purchase obligations payable from the District's maintenance & operation tax rate. Excludes the Refunded Bonds.

(2) Interest on the Bonds has been calculated at the rates set forth on page 2.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Period Ending 6/30/21		\$ 1,228,725
Interest & Sinking Fund Balance, as of 6/30/20	\$ 1,025,121	
Budgeted Interest & Sinking Fund Tax Levy	789,072	
State Funding ⁽¹⁾	401,237	\$ 2,215,430
Estimated Balance, Period Ending 6/30/21		<u>\$ 986,705</u>

(1) Figure is preliminary, subject to change.

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TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

As of June 1, 2021, the District has no authorized but unissued bonds.

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

TABLE 10 - OTHER OBLIGATIONS

As of June 1, 2021, the District has no other obligations.

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

OTHER POST EMPLOYMENT BENEFITS . . . As a result of its participation in the System 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 Statement 45.

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FINANCIAL INFORMATION

TABLE 11 - CHANGE IN NET POSITION

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
REVENUES:					
<u>Program Revenues</u>					
Charges for Services	\$ 481,755	\$ 558,584	\$ 562,810	\$ 499,334	\$ 544,583
Operating Grants and Contributions	2,992,768	3,031,562	(34,010)	1,889,484	1,894,139
<u>General Revenues</u>					
Property Taxes	3,980,065	3,582,230	3,443,439	3,276,917	3,302,398
State Aid-Formula Grants	10,433,884	8,520,400	7,988,058	7,638,959	7,504,856
Grants and Contributions not Restricted	370,723	425,895	367,886	676,387	618,211
Investment Earnings	75,562	86,566	83,528	38,581	21,824
Other	120,932	37,730	62,170	71,218	78,553
Total Revenues	\$ 18,455,689	\$ 16,242,967	\$ 12,473,881	\$ 14,090,880	\$ 13,964,564
EXPENSES:					
Instruction	\$ 10,958,397	\$ 7,852,067	\$ 4,670,971	\$ 6,675,785	\$ 6,839,763
Instructional Resources and Media Services	104,761	101,790	92,145	149,278	144,459
Curriculum Development and Instructional Staff Development	86,417	98,595	73,705	84,274	45,020
Instructional Leadership	124,054	120,523	53,211	86,789	45,695
School Leadership	945,797	900,899	634,807	825,658	779,643
Guidance, Counseling and Evaluation Services	431,561	380,622	238,627	273,966	285,830
Social Work Services	-	-	-	-	-
Health Services	106,917	121,805	80,524	127,706	127,595
Student (Pupil) Transportation	559,182	468,867	383,476	452,547	408,212
Food Services	954,942	949,625	735,494	904,510	869,723
Cocurricular/Extracurricular Activities	1,329,481	1,357,583	1,096,477	1,091,485	1,108,716
General Administration	735,088	723,636	510,139	614,660	580,536
Plant Maintenance and Operations	1,988,944	1,802,141	1,458,938	1,598,528	1,466,829
Security and Monitoring Services	218,032	141,688	110,706	123,982	68,590
Data Processing Services	420,529	402,021	286,560	309,036	328,823
Interest on Long-Term Debt	159,510	173,805	183,535	195,104	217,037
Bond Issuance Costs and Fees	1,700	3,725	5,070	4,600	4,750
Payments to Fiscal Agent/Member Districts of Shared Service Arrangements	44,239	40,100	-	-	-
Other Intergovernmental Charges	38,998	37,285	34,884	36,095	38,240
Total Expenses	\$ 19,208,549	\$ 15,676,777	\$ 10,649,269	\$ 13,554,003	\$ 13,359,461
Increase in Net Position	\$ (752,860)	\$ 566,190	\$ 1,824,612	\$ 536,877	\$ 605,103
Transfers In (Out)	-	-	-	-	-
Special Items-Prior Period Adjustment	-	-	(6,914,245)	(5,935)	(1,031,948)
Beginning Net Position	8,976,070	8,409,880	13,499,513	12,968,571	13,395,416
Ending Net Position	\$ 8,223,210	\$ 8,976,070	\$ 8,409,880	\$ 13,499,513	\$ 12,968,571

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

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TABLE 11A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
Revenues:					
Local Sources	\$ 3,241,013	\$ 3,083,772	\$ 3,021,063	\$ 2,812,235	\$ 2,871,183
State Sources	11,128,929	9,047,108	8,519,456	8,122,142	7,967,692
Federal Sources	239,591	560,035	373,810	173,547	100,281
Total Revenues	\$ 14,609,533	\$ 12,690,915	\$ 11,914,329	\$ 11,107,924	\$ 10,939,156
Expenditures:					
Instruction	\$ 7,273,501	\$ 6,119,544	\$ 5,864,981	\$ 5,441,358	\$ 5,537,831
Instructional Resources and Media Services	83,306	81,151	98,549	114,068	115,568
Curriculum Development and Instructional Staff Development	80,196	93,458	94,106	81,386	41,974
Instructional Leadership	113,991	112,181	83,053	84,424	43,413
School Leadership	862,369	833,734	951,386	796,927	732,048
Guidance, Counseling and Evaluation Services	377,085	334,805	353,316	263,820	268,546
Social Work Services	-	-	-	-	-
Health Services	97,357	113,440	120,256	123,946	120,624
Student (Pupil) Transportation	483,557	471,314	452,333	463,998	306,194
Cocurricular/Extracurricular Activities	897,155	872,256	849,472	673,139	634,561
General Administration	690,930	688,980	651,710	605,016	561,094
Plant Maintenance and Operations	1,856,561	1,683,717	1,661,815	1,495,894	1,330,478
Security and Monitoring Services	215,518	141,688	110,077	120,211	64,818
Data Processing Services	398,360	374,266	347,025	287,960	301,880
Debt Service	-	-	-	-	-
Other Intergovernmental Charges	38,998	37,285	34,884	36,095	38,240
Facilities Acquisition and Construction	1,868,099	244,406	695,603	142,081	-
Total Expenditures	\$ 15,336,983	\$ 12,202,225	\$ 12,368,566	\$ 10,730,323	\$ 10,097,269
Excess of Revenue Over (Under) Expenditures	\$ (727,450)	\$ 488,690	\$ (454,237)	\$ 377,601	\$ 841,887
Other Resources and (Uses)	\$ 1,646	\$ -	\$ 551	\$ 1,731	\$ (1,029,671)
Net Change in Fund Balances	\$ (725,804)	\$ 488,690	\$ (453,686)	\$ 379,332	\$ (187,784)
Fund Balance, Beginning	\$ 5,848,711	\$ 5,360,021	\$ 5,813,707	\$ 5,434,375	\$ 5,622,159
Adjustments/Reclassification	-	-	-	-	-
Fund Balance, Ending	\$ 5,122,907	\$ 5,848,711	\$ 5,360,021	\$ 5,813,707	\$ 5,434,375

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

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FINANCIAL POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 (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) (i) certificates of deposit and share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the 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) certificates of deposit 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 clauses (1) or (12) 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 an average 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 may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

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

Effective September 1, 2019, the investment officer of a local government (such as the District) is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

Under Texas law, the District's investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived.” At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 strategies and (b) Texas 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 by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the District 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) in conjunction with its annual audit, perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 12 - CURRENT INVESTMENTS

As of May 31, 2021, the District's investable funds were invested in the following categories:

Description	Market Value	% of Total
Bank Accounts	\$ 5,905,046	80.43%
Investment Pools	1,437,095	19.57%
Total	<u>\$ 7,342,142</u>	<u>100.00%</u>

TAX MATTERS

OPINIONS . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX C - Form of Bond Counsel's Opinion.

In rendering the foregoing opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax Bond, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, (c) the certification by Specialized Public Finance Inc. verifying the sufficiency of the amounts deposited to redeem the Refunded Obligations, and (d) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the District is conditioned on compliance by the District with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity

(determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount Bonds” to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES . . . 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. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

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 Internal Revenue Service. Payments of interest and principal may be subject to 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.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or

any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000 there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded, however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations, because the District does not currently have outstanding more than \$10,000,000 in aggregate principal amount of municipal securities (excluding securities offered in transactions that were exempt from the Rule) and no person is committed by contract or other arrangement with respect to payment of the Bonds. Pursuant to the exemption, 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system, free of charge at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement that is customarily prepared by the District and publicly available, which currently consists of an annual audited financial statement. The District will update and provide this information within twelve months after the end of each fiscal year ending in or after 2021. The District will provide the updated information to the MSRB through the EMMA information system in accordance with recent amendments to Rule 15c2-12 (the "Rule") promulgated by the SEC. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data of the type described in the preceding paragraph by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB.

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such

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

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

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

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

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

OTHER INFORMATION

RATINGS . . . The Bonds are rated “A+” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”). The Bonds are expected to be guaranteed by the Permanent School Fund of the State of Texas, and S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA”. In addition, the District has three issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

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

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

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

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$54,412.31. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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

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

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

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

Andy Nies

Pricing Officer
River Road Independent School District

SCHEDULE OF REFUNDED BONDS

Unlimited Tax Refunding Bonds, Series 2012

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Maturity Value</u>
October 15, 2012	8/15/2022 ⁽¹⁾	3.000%	\$ 70,000
	8/15/2023 ⁽¹⁾	3.000%	70,000
	8/15/2024	P-CAB	800,000
	8/15/2025	3.000%	1,100,000
	8/15/2026	3.000%	1,125,000
	8/15/2027	2.000%	860,000
	8/15/2028	3.000%	1,185,000
	8/15/2029	3.000%	1,225,000
	8/15/2030	3.000%	1,255,000
	8/15/2024	3.000%	285,000
	8/15/2027	3.000%	300,000
			<u>\$ 8,275,000</u>

Redemption Date: 8/25/2021

Redemption Price: 100%

⁽¹⁾ Term Bonds.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT

River Road Independent School District is a ranching area located in Potter County. The District has an estimated population of 5,758 and is made up of a portion of the City of Amarillo (the “City”). Potter County is located in the Northwest Texas Panhandle and has an economy based on transportation and agribusiness.

ENROLLMENT

Enrollment in the River Road Independent School District has been as follows:

<u>School Year</u>	<u>Enrollment</u>
2016/17	901
2017/18	877
2018/19	1,338
2019/20	1,326
2020/21	1,272

Source: Texas Education Agency.

CAMPUSES

<u>Name of School</u>	<u>Grades Use</u>
Willow Vista Early Childhood Academy	Head Start - Kindergarten
Rolling Hills Elementary	1st - 5th
River Road Middle School	6th - 8th
River Road High School	9th - 12th

Source: River Road Independent School District.

POTTER COUNTY ECONOMY

The County’s economy is based on transportation, agriculture and oil and natural gas production. Agricultural income is derived from cattle, wheat, sorghums, corn and sugar beets. These chief crops make up a total of 18,000 acres of irrigated farm land. Minerals produced in the county include natural gas, oil, cement, stone, clays, sand and gravel. Amarillo College, Texas Tech Medical and Engineering schools and Texas State Technical College Branch provide Post Secondary Education in the County.

LABOR FORCE ESTIMATES (POTTER COUNTY)

	April	<u>Annual Averages</u>			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Civilian Labor Force	54,717	54,150	54,356	54,879	55,424
Total Employment	52,235	51,189	52,868	53,264	53,630
Total Unemployment	2,482	2,961	1,488	1,615	1,794
Percent Unemployment	4.5%	5.5%	2.7%	2.9%	3.2%

Source: Texas Labor Market Information.

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APPENDIX B

EXCERPTS FROM THE
RIVER ROAD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2020

The information contained in this Appendix consists of excerpts from the River Road Independent School District Annual Financial Report for the Year Ended June 30, 2020, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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JOHNSON & SHELDON, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

UNMODIFIED OPINION ON GOVERNMENTAL BASIC FINANCIAL STATEMENTS,
WITH REQUIRED SUPPLEMENTARY INFORMATION, SUPPLEMENTARY
INFORMATION INCLUDING THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS, AND OTHER INFORMATION

Independent Auditor's Report

Board of Trustees
River Road Independent School District
Amarillo, 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 **River Road Independent School District** (the District), as of and for the year ended June 30, 2020, 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 District as of June 30, 2020, 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; Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual - General Fund; Schedule of the District's Proportionate Share of the Net Pension Liability (TRS); Schedule of District Contributions for Pensions (TRS); Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS); and Schedule of District Contributions for Other Post Employment Benefits (OPEB) (TRS) on pages 5 through 13 and pages 58 through 64 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 and individual nonmajor fund financial statements and the Texas Education Agency required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Johnson & Sheldon PLLC

Johnson & Sheldon, PLLC
Amarillo, Texas
November 9, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

In this section of the Annual Financial and Compliance Report, we, the managers of River Road Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended June 30, 2020. Please read it in conjunction with the District’s financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District’s total combined net position was \$8,223,210 at June 30, 2020.
- The District’s governmental funds financial statements reported combined ending fund balance of \$6,313,741. This balance consists of \$5,122,907 in the General Fund of which \$75,000 is assigned or committed and \$5,047,907 is unassigned and available for spending at the District’s discretion. Restricted fund balance totals \$1,190,834 and is used by the Debt Service Fund and Non-major Funds.
- For the year ended June 30, 2020, total revenue from all sources was \$18,455,689. Program revenues accounted for \$3,474,523 of total revenues. General revenues and special items accounted for \$14,981,166.
- The General Fund had \$14,611,179 in revenues and other financing sources, which primarily consisted of state aid and property taxes and \$15,336,983 in expenditures which resulted in a decrease to the fund balance of \$725,804.

USING THIS ANNUAL REPORT

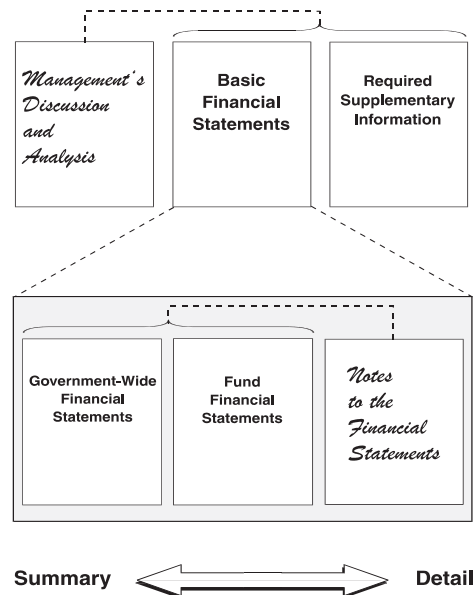
This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 15 and 16). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. The notes provide additional information that is essential in fully understanding the data provided in the government-wide and fund financial statements.

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

Exhibit I - Required Components of the District’s Annual Financial Report



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

USING THIS ANNUAL REPORT (continued)

Exhibit II summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this section explains the structure and contents of each of the statements.

**Exhibit II
Major Features of the District's Government-Wide and Fund Financial Statements**

Type of Statement	Government-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units.	The activities of the District that are not proprietary or fiduciary.	Activities of the District which operate similar to private business.	Instances in which the District is the trustee or agent for someone else's resources.
Required financial statements	- Statement of Net Position - Statement of Activities	- Statement of Revenues, Expenditures and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenditures and Changes in Net Position - Statement of Cash Flows	- Statement of Net Position - Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

USING THIS ANNUAL REPORT (continued)

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we present the District with only one kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The governmental fund financial statements begin on page 18 and provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's governmental fund uses the following accounting approaches:

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



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

USING THIS ANNUAL REPORT (continued)

Reporting the District's Most Significant Funds (continued)

Fund Financial Statements (continued)

- Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the District's own programs. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Assets and Liabilities that can be found on pages 25 and 71.

The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 thru 57.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Fund Net Position and Changes in Fiduciary Assets and Liabilities on pages 25 and 71. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's combined net position between fiscal years 2020 and 2019, decreased by \$752,860, as can be seen in Exhibit III. The District's net investment in capital assets is \$9,502,355 and includes its investments in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress) less any debt used to acquire those assets that is still outstanding.

The District uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of the District's governmental activities decreased from \$8,976,070 to \$8,223,210. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$(2,469,979) at June 30, 2020. This decrease in governmental net position was the result of four factors. First, the District's expenditures exceeded revenues by \$752,860. Second, the District acquired capital assets in the amount of \$275,699. Third, the District recorded depreciation and other expenses not recognized in the amount of \$842,418. Fourth, due to the required recognition of GASB 68 and 75 related to the District's participation in TRS, the District was required to record and disclose its share of the District's net pension liability and some deferred resource outflows and resource inflows related to the District's pension plan.

Exhibit III provides a summary of the Assets, Liabilities and Net Position for governmental activities for the years ended June 30, 2020 and 2019, respectively.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

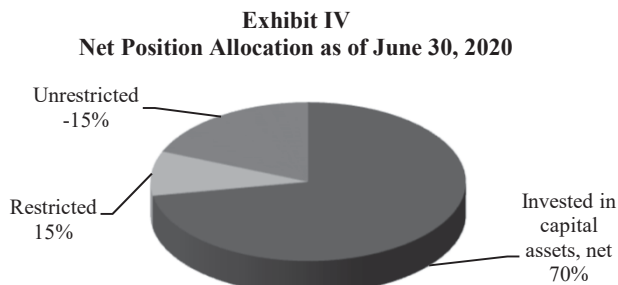
GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net Position (continued)

**Exhibit III
The District's Net Position as of June 30, 2020 and 2019**

	Governmental Activities			
	2020	2019	Change	% Change
Assets				
Cash and investments	\$ 6,967,650	\$ 6,618,370	\$ 349,280	5.28%
Property taxes, net	517,997	252,658	265,339	105.02%
Accounts receivable	1,199,421	2,094,393	(894,972)	-42.73%
Other assets	280,423	241,207	39,216	16.26%
Capital assets, net	22,006,744	22,573,463	(566,719)	-2.51%
Total Assets	30,972,235	31,780,091	(807,856)	-2.54%
Deferred outflows				
Deferred charge for refunding	801,660	922,149	(120,489)	-13.07%
Deferred outflow related to TRS	3,250,552	2,980,726	269,826	9.05%
Total Deferred Outflows	4,052,212	3,902,875	149,337	3.83%
Liabilities				
Accounts payable	105,762	86,896	18,866	21.71%
Accrued expenses	1,667,414	1,395,669	271,745	19.47%
Unearned revenue	8,990	8,283	707	8.54%
Noncurrent liabilities	22,231,338	23,393,202	(1,161,864)	-4.97%
Total Liabilities	24,013,504	24,884,050	(870,546)	-3.50%
Deferred inflow related to TRS	2,787,733	1,822,846	964,887	52.93%
Net Position				
Invested in capital assets, net	9,502,355	8,993,640	508,715	5.66%
Restricted	1,190,834	1,323,512	(132,678)	-10.02%
Unrestricted	(2,469,979)	(1,341,082)	(1,128,897)	-84.18%
Total Net Position	\$ 8,223,210	\$ 8,976,070	\$ (752,860)	-8.39%

On June 30, 2020, the District's net position had decreased by \$752,860, or -8.39%, from June 30, 2019. Unrestricted net position, the part of net position that can be used to finance daily operations of the District, decreased by \$1,128,897, or -84.18%. Exhibit IV shows the District's allocation of net position as of June 30, 2020.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Year Ended June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net Position (continued)

Exhibit V

The District's Changes in Net Position for the Years Ended June 30, 2020 and 2019

	Governmental Activities			
	2020	2019	Change	% Change
Revenues - Program				
Charges for services	\$ 481,755	\$ 558,584	\$ (76,829)	-13.75%
Operating grants and contributions	2,992,768	3,031,562	(38,794)	-1.28%
Revenues - General				
Taxes - maintenance and operations	3,174,977	2,889,633	285,344	9.87%
Taxes - interest and sinking	805,088	692,597	112,491	16.24%
State aid - formula grants	10,433,884	8,520,400	1,913,484	22.46%
Grants and contributions not restricted	370,723	425,895	(55,172)	-12.95%
Investment earnings	75,562	86,566	(11,004)	-12.71%
Miscellaneous local and intermediate	120,932	37,730	83,202	220.52%
Total Revenues	<u>18,455,689</u>	<u>16,242,967</u>	<u>2,212,722</u>	<u>13.62%</u>
Expenses				
Instruction	10,958,397	7,852,067	3,106,330	39.56%
Instructional resources and media	104,761	101,790	2,971	2.92%
Curriculum and staff development	86,417	98,595	(12,178)	-12.35%
Instructional leadership	124,054	120,523	3,531	2.93%
School leadership	945,797	900,899	44,898	4.98%
Guidance, counseling and evaluation	431,561	380,622	50,939	13.38%
Health services	106,917	121,805	(14,888)	-12.22%
Student transportation	559,182	468,867	90,315	19.26%
Food services	954,942	949,625	5,317	0.56%
Extracurricular activities	1,329,481	1,357,583	(28,102)	-2.07%
General administration	735,088	723,636	11,452	1.58%
Facilities maintenance and operations	1,988,944	1,802,141	186,803	10.37%
Security and monitoring services	218,032	141,688	76,344	53.88%
Data processing services	420,529	402,021	18,508	4.60%
Debt service - interest	159,510	173,805	(14,295)	-8.22%
Debt service - issuance costs	1,700	3,725	(2,025)	-54.36%
Payments for shared services	44,239	40,100	4,139	10.32%
Other intergovernmental charges	38,998	37,285	1,713	4.59%
Total Expenses	<u>19,208,549</u>	<u>15,676,777</u>	<u>3,531,772</u>	<u>22.53%</u>
Increase (Decrease) in Net Position	(752,860)	566,190	(1,319,050)	-232.97%
Net Position at Beginning of Year	<u>8,976,070</u>	<u>8,409,880</u>	<u>566,190</u>	<u>6.73%</u>
Net Position at End of Year	<u><u>\$ 8,223,210</u></u>	<u><u>\$ 8,976,070</u></u>	<u><u>\$ 752,860</u></u>	<u><u>-8.39%</u></u>



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net Position (continued)

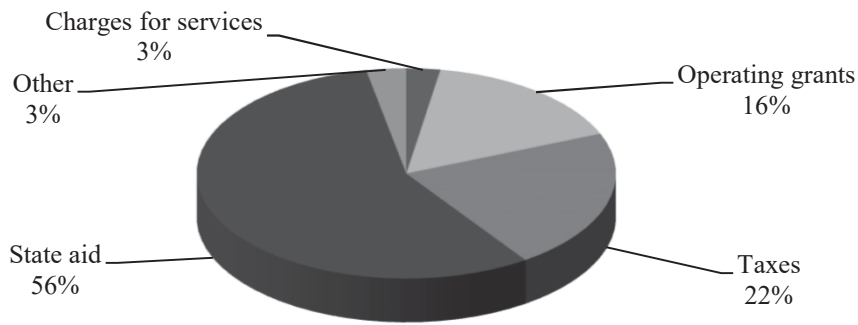
For the year ended June 30, 2020, the District's total revenues increased \$2,212,722, or 13.62%, over the prior year mainly driven by an increase in state aid formula grants, primarily a result of an increase in the District's Foundation Allotment to reimburse salary increases required under House Bill 3 for the year ended June 30, 2020.

For the year ended June 30, 2020, the District's total expenses increased by \$3,531,772, or 22.53%, over the prior year mainly driven by an increase in instructional expenses, primarily the result of required salary increases under House Bill 3 for the year ended June 30, 2020.

Other Financial Highlights

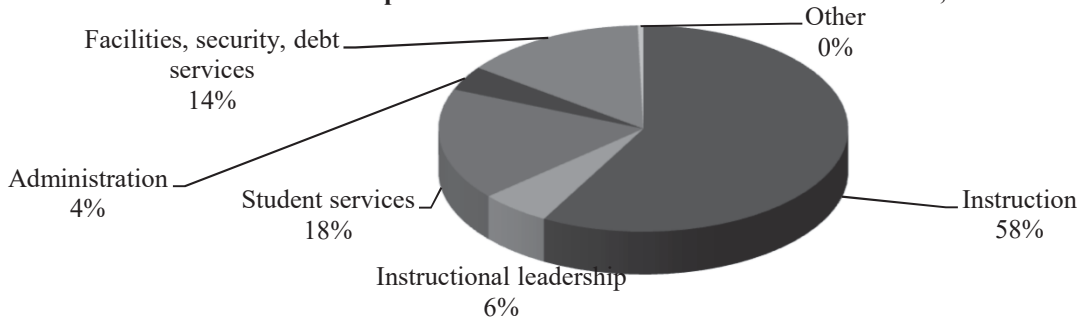
For the year ended June 30, 2020, the District's total revenues were \$18,455,687. Approximately 22% of the District's revenue was generated by property taxes, 56% was generated from state aid grants, 16% was generated from other operating grants, 3% was generated from charges for services and the remaining 3% was generated from miscellaneous revenue sources (see Exhibit VI).

Exhibit VI - Sources of Revenues for the Year Ended June 30, 2020



For the year ended June 30, 2020, the District's total cost of all programs and services was \$19,208,549. Approximately 58% of the District's governmental activities were dedicated to instructional areas. Direct student services, such as counseling, nursing and transportation services comprised 18% of governmental expenses. The costs to operate facilities, including utilities, security services and debt payments comprised 14% of the cost of all programs (see Exhibit VII).

Exhibit VII - Expenditure Allocation for the Year Ended June 30, 2020



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Other Financial Highlights (continued)

The District took actions this year to compensate for some expected increases in cost and avoid the loss of state revenue due to changes in the provisions related to accelerated, intensive, compensatory education (State Comp Ed) and student attendance accounting (Leavers).

- The District total property tax rate was set at \$1.2765 per hundred dollar valuation in 2020, which decreased from 2019. The tax rate will decrease to \$1.2628 per hundred dollar valuation for the 2020-2021 school year.
- The cost of all governmental activities this year was \$19.209 million compared to \$15.677 million last year. However, as shown in the Statement of Activities on Exhibit B-1 (page 16), the amount that our taxpayers ultimately financed for these activities through District taxes was only \$4.0 million because some of the costs were paid by those who directly benefited from the programs (\$.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3.0 million) or by State equalization funding (\$10.4 million).
- The District's management and budget managers were conservative in spending allocated resources.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$6.3 million, which is significantly lower than last year's total of \$7.2 million. Included in this year's total change in fund balance is a decrease of \$725,804 in the District's General Fund and a decrease of \$67,880 in the District's Debt Service Fund. The primary reasons for the decreases are related to the increase in state program revenues received as well as an increase in the amount of capital expenditures in the 2019-2020 school year.

Over the course of the year, the Board of Trustees revised the District's budget. The budget amendments involved moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs, and adjusting for changes in planned purchases.

The District's General Fund balance of \$5,122,907 reported on page 18 differs from the General Fund's budgetary fund balance of \$4,212,130 reported in the budgetary comparison schedule on page 58. This is principally due to cost savings and added revenues described above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2020 the District had a net of \$22,006,744 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$566,719, or 3 percent, from last year.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2020**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

This year's major additions included:

Ag Shop Addition	\$	58,566
2020 Chevy Suburban		46,166
2020 Chevy Equinox		25,485
Baseball/Softball Windscreens		17,183
Big Tex Trailer		10,055
Other Capital Asset Additions		<u>118,244</u>
Total	\$	<u><u>275,699</u></u>

Debt Administration

At year-end, the District had \$13,306,049 in outstanding net long-term debt, related to various Bonds issued by the District. For more information on the District's long-term debt, see Notes H and I in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District is located in Potter County, Texas. The primary economic activity of Potter County is agriculture. The majority of the District's property tax base is derived from agriculture property and activities.

The District's student enrollment decreased as enrollment was 1,316 at the beginning of fiscal year 2019-2020 and enrollment was 1,287 at the beginning of 2020-2021.

The District's elected and appointed officials considered many factors when setting the fiscal-year 2020-2021 budget and tax rates. The District approved to decrease the operating tax rate to \$1.0028 per hundred dollar valuation, for the fiscal year 2020-2021. The District's interest and sinking tax rate remained constant at \$0.26 per hundred dollar valuation for the fiscal year 2020-2021.

These indicators were taken into account when adopting the General Fund budget for 2021. Amounts available for appropriation in the General Fund budget are \$14.5 million, and budgeted expenditures are expected to be \$14.5 million. The District has added no new major programs or initiatives to the 2021 budget.

For the 2020-2021 year, the District budgeted for an increase of approximately \$59,000 in Federal funding and an increase of approximately \$385,000 in State funding.

There are additional funding challenges in the future for all school districts, but with the strong support of the District's citizens and great leadership of the Board of Trustees, the District's management is very confident that the District will remain financially sound.

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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at River Road Independent School District, 9500 US 287 North, Amarillo, Texas 79108.



BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 5,531,817
1120 Current Investments	1,435,833
1220 Property Taxes - Delinquent	634,627
1230 Allowance for Uncollectible Taxes	(116,630)
1240 Due from Other Governments	1,198,435
1267 Due from Fiduciary Funds	636
1290 Other Receivables, Net	350
1410 Prepayments	280,423
Capital Assets:	
1510 Land	1,436,923
1520 Buildings, Net	17,915,243
1530 Furniture and Equipment, Net	769,123
1540 Other Capital Assets, Net	435,527
1590 Infrastructure, Net	1,449,928
1000 Total Assets	30,972,235
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	801,660
1705 Deferred Outflow Related to TRS Pension	2,125,940
1706 Deferred Outflow Related to TRS OPEB	1,124,612
1700 Total Deferred Outflows of Resources	4,052,212
LIABILITIES	
2110 Accounts Payable	105,762
2140 Interest Payable	82,388
2150 Payroll Deductions and Withholdings	94,709
2160 Accrued Wages Payable	1,117,919
2180 Due to Other Governments	80,870
2200 Accrued Expenses	291,528
2300 Unearned Revenue	8,990
Noncurrent Liabilities:	
2501 Due Within One Year	536,621
2502 Due in More Than One Year	12,805,773
2540 Net Pension Liability (District's Share)	4,085,213
2545 Net OPEB Liability (District's Share)	4,803,731
2000 Total Liabilities	24,013,504
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	709,567
2606 Deferred Inflow Related to TRS OPEB	2,078,166
2600 Total Deferred Inflows of Resources	2,787,733
NET POSITION	
3200 Net Investment in Capital Assets	9,502,355
3820 Restricted for Federal and State Programs	55,094
3850 Restricted for Debt Service	1,025,121
3890 Restricted for Other Purposes	110,619
3900 Unrestricted	(2,469,979)
3000 Total Net Position	\$ 8,223,210

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position <u>Primary Gov.</u> Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 10,958,397	\$ 67,657	\$ 1,852,995	\$ (9,037,745)
12 Instructional Resources and Media Services	104,761	-	6,078	(98,683)
13 Curriculum and Instructional Staff Development	86,417	-	4,890	(81,527)
21 Instructional Leadership	124,054	-	11,625	(112,429)
23 School Leadership	945,797	-	84,134	(861,663)
31 Guidance, Counseling and Evaluation Services	431,561	-	51,170	(380,391)
33 Health Services	106,917	-	9,802	(97,115)
34 Student (Pupil) Transportation	559,182	-	33,257	(525,925)
35 Food Services	954,942	179,817	662,114	(113,011)
36 Extracurricular Activities	1,329,481	234,281	45,120	(1,050,080)
41 General Administration	735,088	-	42,050	(693,038)
51 Facilities Maintenance and Operations	1,988,944	-	84,103	(1,904,841)
52 Security and Monitoring Services	218,032	-	38,935	(179,097)
53 Data Processing Services	420,529	-	22,256	(398,273)
72 Debt Service - Interest on Long-Term Debt	159,510	-	-	(159,510)
73 Debt Service - Bond Issuance Cost and Fees	1,700	-	-	(1,700)
93 Payments Related to Shared Services Arrangements	44,239	-	44,239	-
99 Other Intergovernmental Charges	38,998	-	-	(38,998)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 19,208,549	\$ 481,755	\$ 2,992,768	\$ (15,734,026)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	3,174,977
DT	Property Taxes, Levied for Debt Service	805,088
SF	State Aid - Formula Grants	10,433,884
GC	Grants and Contributions not Restricted	370,723
IE	Investment Earnings	75,562
MI	Miscellaneous Local and Intermediate Revenue	120,932
TR	Total General Revenues	14,981,166
CN	Change in Net Position	(752,860)
NB	Net Position - Beginning	8,976,070
NE	Net Position - Ending	\$ 8,223,210

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



GOVERNMENTAL FUND FINANCIAL STATEMENTS



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 3,800,394	\$ 1,228,722	\$ 207,747	\$ 5,236,863
1120 Investments - Current	1,358,144	-	-	1,358,144
1220 Property Taxes - Delinquent	506,598	128,029	-	634,627
1230 Allowance for Uncollectible Taxes	(92,948)	(23,682)	-	(116,630)
1240 Due from Other Governments	1,030,589	-	167,846	1,198,435
1260 Due from Other Funds	217,030	2,269	-	219,299
1290 Other Receivables	419	-	(69)	350
1000 Total Assets	<u>\$ 6,820,226</u>	<u>\$ 1,335,338</u>	<u>\$ 375,524</u>	<u>\$ 8,531,088</u>
LIABILITIES				
2110 Accounts Payable	\$ 79,296	\$ -	\$ 26,466	\$ 105,762
2150 Payroll Deductions and Withholdings Payable	94,709	-	-	94,709
2160 Accrued Wages Payable	1,044,568	-	73,351	1,117,919
2170 Due to Other Funds	2,269	125,000	91,394	218,663
2180 Due to Other Governments	-	80,870	-	80,870
2200 Accrued Expenditures	62,826	-	9,610	72,436
2300 Unearned Revenue	-	-	8,990	8,990
2000 Total Liabilities	<u>1,283,668</u>	<u>205,870</u>	<u>209,811</u>	<u>1,699,349</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	413,651	104,347	-	517,998
2600 Total Deferred Inflows of Resources	<u>413,651</u>	<u>104,347</u>	<u>-</u>	<u>517,998</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	55,094	55,094
3480 Retirement of Long-Term Debt	-	1,025,121	-	1,025,121
3490 Other Restricted Fund Balance	-	-	110,619	110,619
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	75,000	-	-	75,000
3600 Unassigned Fund Balance	5,047,907	-	-	5,047,907
3000 Total Fund Balances	<u>5,122,907</u>	<u>1,025,121</u>	<u>165,713</u>	<u>6,313,741</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,820,226</u>	<u>\$ 1,335,338</u>	<u>\$ 375,524</u>	<u>\$ 8,531,088</u>

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2020

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	6,313,741
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.		433,974
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 \$36,791,520 and the accumulated depreciation was (\$14,218,057). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		8,870,586
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 2020 capital outlays and debt principal payments is to increase net position.		1,355,454
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$2,125,940, a deferred resource inflow in the amount of \$709,567, and a net pension liability in the amount of \$4,085,213. This resulted in a decrease in net position.		(2,668,840)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$1,124,612, a deferred resource inflow in the amount of \$2,078,166, and a net OPEB liability in the amount of \$4,803,731. This resulted in a decrease in net position.		(5,757,285)
6 The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(842,418)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		517,998
19 Net Position of Governmental Activities	\$	8,223,210

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,241,013	\$ 773,441	\$ 376,874	\$ 4,391,328
5800 State Program Revenues	11,128,929	396,054	263,711	11,788,694
5900 Federal Program Revenues	239,591	-	1,316,333	1,555,924
5020 Total Revenues	<u>14,609,533</u>	<u>1,169,495</u>	<u>1,956,918</u>	<u>17,735,946</u>
EXPENDITURES:				
Current:				
0011 Instruction	7,273,501	-	854,434	8,127,935
0012 Instructional Resources and Media Services	83,306	-	1,825	85,131
0013 Curriculum and Instructional Staff Development	80,196	-	-	80,196
0021 Instructional Leadership	113,991	-	-	113,991
0023 School Leadership	862,369	-	-	862,369
0031 Guidance, Counseling, and Evaluation Services	377,085	-	15,149	392,234
0033 Health Services	97,357	-	-	97,357
0034 Student (Pupil) Transportation	483,557	-	-	483,557
0035 Food Services	-	-	888,345	888,345
0036 Extracurricular Activities	897,155	-	178,262	1,075,417
0041 General Administration	690,930	-	528	691,458
0051 Facilities Maintenance and Operations	1,856,561	-	-	1,856,561
0052 Security and Monitoring Services	215,518	-	38,934	254,452
0053 Data Processing Services	398,360	-	-	398,360
Debt Service:				
0071 Principal on Long-Term Debt	-	592,079	-	592,079
0072 Interest on Long-Term Debt	-	643,596	-	643,596
0073 Bond Issuance Cost and Fees	-	1,700	-	1,700
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,868,099	-	-	1,868,099
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	44,239	44,239
0099 Other Intergovernmental Charges	38,998	-	-	38,998
6030 Total Expenditures	<u>15,336,983</u>	<u>1,237,375</u>	<u>2,021,716</u>	<u>18,596,074</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(727,450)	(67,880)	(64,798)	(860,128)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	1,646	-	-	1,646
1200 Net Change in Fund Balances	(725,804)	(67,880)	(64,798)	(858,482)
0100 Fund Balance - July 1 (Beginning)	<u>5,848,711</u>	<u>1,093,001</u>	<u>230,511</u>	<u>7,172,223</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 5,122,907</u>	<u>\$ 1,025,121</u>	<u>\$ 165,713</u>	<u>\$ 6,313,741</u>

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	(858,482)
<p>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 increase the change in net position.</p>		
		59,956
<p>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 2020 capital outlays and debt principal payments is to increase the change in net position.</p>		
		1,355,454
<p>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 the change in net position.</p>		
		(842,418)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.</p>		
		265,340
<p>GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$244,795. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$235,799. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$614,079. The net result is a decrease in the change in net position.</p>		
		(605,083)
<p>GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$66,758. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$61,203. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$133,182. The net result is a decrease in the change in net position.</p>		
		(127,627)
Change in Net Position of Governmental Activities	\$	(752,860)

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



PROPRIETARY FUND FINANCIAL STATEMENTS



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 294,954
Investments - Current	77,689
Prepayments	<u>280,423</u>
Total Assets	<u>653,066</u>
LIABILITIES	
Current Liabilities:	
Accrued Expenses	<u>219,092</u>
Total Liabilities	<u>219,092</u>
NET POSITION	
Restricted for Other Purposes	<u>433,974</u>
Total Net Position	<u><u>\$ 433,974</u></u>

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 87,080
Total Operating Revenues	87,080
OPERATING EXPENSES:	
Other Operating Costs	27,124
Total Operating Expenses	27,124
Operating Income	59,956
Total Net Position - July 1 (Beginning)	374,018
Total Net Position - June 30 (Ending)	\$ 433,974

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 82,104
Cash Payments for Insurance Claims	(71,817)
Net Cash Provided by Operating Activities	10,287
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	(1,100)
Net Cash Provided by (Used for) Investing Activities	(1,100)
Net Increase in Cash and Cash Equivalents	9,187
Cash and Cash Equivalents at Beginning of Year	285,767
Cash and Cash Equivalents at End of Year	\$ 294,954
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 59,956
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Prepaid Expenses	(46,461)
Increase (decrease) in accrued expenses	(3,208)
Net Cash Provided by Operating Activities	\$ 10,287
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 294,954
Total Cash and Cash Equivalents	\$ 294,954
<u>Noncash Investing, Capital and Financing Activities:</u>	
Increase in Fair Value of Investments	1,100

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



FIDUCIARY FUND FINANCIAL STATEMENTS



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 6,770	\$ 19,747
Total Assets	<u>6,770</u>	<u>\$ 19,747</u>
LIABILITIES		
Due to Other Funds	636	\$ -
Due to Student Groups	-	19,747
Payable from Restricted Assets	100	-
Total Liabilities	<u>736</u>	<u>\$ 19,747</u>
NET POSITION		
Restricted for Scholarships	<u>6,034</u>	
Total Net Position	<u>\$ 6,034</u>	

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



NOTES TO THE FINANCIAL STATEMENTS



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

River Road Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District is governed by a seven member Board of Trustees (the Board) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

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

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

The District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Proprietary and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with operations are included on the Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING (continued)

Additionally, the District reports the following fund types:

Governmental Funds:

1. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

1. **Internal Service Fund** - 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 a workers compensation insurance fund.

Fiduciary Funds:

1. **Private Purpose Trust Funds** - The District accounts for donations which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's private purpose trust fund is a scholarship fund.
2. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees.

E. FUND BALANCE POLICY

The District reports fund balances for governmental funds in classifications based primarily on the extent to which the District 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 "must be maintained intact" and therefore will never convert to cash, such as inventories or 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 preclude a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications - committed, assigned and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balance since that practice would commit funds that the District does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Board.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. FUND BALANCE POLICY (continued)

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation or authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned or unassigned balances, the expenditures should be charged to committed balances, then assigned balances, with any remainders to be charged to unassigned balances.

As of June 30, 2020, the District reports the following governmental fund balance classifications:

Restricted		
Federal or State Funds Grant Restriction	\$	55,094
Retirement of Long-Term Debt		1,025,121
Other Restricted Fund Balance		<u>110,619</u>
Total Restricted		<u>1,190,834</u>
Assigned		
Other Assigned Fund Balance		<u>75,000</u>
Total Assigned		<u>75,000</u>
Unassigned		<u>5,047,907</u>
Total Fund Balance	\$	<u>6,313,741</u>

F. PENSIONS AND OTHER POST RETIREMENT BENEFITS

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

G. OTHER ACCOUNTING POLICIES

1. The District reports purchases of supplies as expenditures when they are purchased. 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 revenues and expenditures in equal amounts. If a material amount of supplies or commodities are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount. At June 30, 2020, the amount of supplies and commodities on hand was not material.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. OTHER ACCOUNTING POLICIES (continued)

2. It is the District's policy to permit some employees to accumulate earned but unused sick pay benefits, depending on job classification, length of service and other factors. All sick leave is accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No payments are made to an employee for unused sick leave except as follows:

On April 6, 1996, the Board of Trustees adopted a policy to provide a retirement benefit for all District employees with at least ten years of service with the District. At date of separation of service and upon filing for retirement benefits from the TRS, eligible employees will be paid for unused state and local sick/personal leave at rate of \$20 per day of accrued sick leave. Eligible employees not retiring through TRS are paid for unused local sick/personal leave at rate of \$10 per day of accrued sick leave. Included in long-term liabilities due within more than one year is \$36,345 of accrued sick leave.

3. Capital assets, which include land, buildings, building improvements, furniture and equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	7-20
Infrastructure	5-50
Furniture and Equipment	5-20
Vehicles	8-10

4. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's Board. Assignments of fund balance are amounts set aside by the District's Superintendent or their designee with the intent they be used for specific purposes.



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. OTHER ACCOUNTING POLICIES (continued)

5. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

As of June 30, 2020, the District had outstanding long term debt in the net amount of \$11,926,186, and an unamortized premium on bonds of \$1,379,863.

6. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
7. The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2020, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.
8. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.
9. The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
10. The amounts on the statements have been rounded individually, consequently, some columns may not total and some schedules may not agree because of this rounding.
11. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
12. 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 (expenses/expenditure) until then.



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. OTHER ACCOUNTING POLICIES (continued)

13. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position.
14. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Child Nutrition Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1, the Child Nutrition Program Budget report is in Exhibit J-4 and the Debt Service Fund is in Exhibit J-5.

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

1. Prior to June 20 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. The following amendments were considered by management to be significant:
 - Total General Fund budget amendments to function 11 (Instruction) amounted to an increase of \$175,000.
 - Total General Fund budget amendments to function 34 (Student (Pupil) Transportation) amounted to a decrease of \$75,000.
 - Total General Fund budget amendments to function 51 (Facilities Maintenance and Operations) amounted to an increase of \$130,000.
 - Total General Fund budget amendments to function 81 (Facilities Acquisition and Construction) amounted to an increase of \$1,950,000.



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY DATA (continued)

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District's management attempts to budget expenditures as accurately as possible during the budget process and to make necessary budget amendments throughout the year as needed. However, sometimes expenditures in the functional categories will exceed budgeted estimates. Actual expenditures on the fund financial statements do not exceed the final amended budget.

C. DEFICIT FUND EQUITY

There were no fund deficits during the year ended June 30, 2020.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

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

Compliance with the Public Funds Investment Act

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



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rates as to investment quality not less than an “A”, (4) No load money market funds with a weighted average maturity of 90 days or less, (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit, (7) secured corporate bonds rated not lower than “AA-” or the equivalent, (8) public funds investment pools, and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. 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.

As of June 30, 2020, the District had the following cash and investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Cash and Cash Equivalents	\$ 5,558,334	\$ 5,558,334	\$ -	\$ -	\$ -
Investment Pools - TexPool	1,389,286	1,389,286	-	-	-
Investment Pools - TexStar	35,800	35,800	-	-	-
Investment Pools - Texas Class	<u>10,747</u>	<u>10,747</u>	-	-	-
Total	<u>\$ 6,994,167</u>	<u>\$ 6,994,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to public funds investment pools, certificates of deposit, and savings accounts with its depository bank.

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

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government’s investment in a single issuer, the District requires the depository bank to pledge securities held by the District’s agent bank in the District’s name 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.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District has established weighted average maturity limits and diversification standards.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Throughout the year and as of June 30, 2020, the District's bank deposits were fully insured by FDIC insurance coverage and pledged securities held by the District's bank in the District's name. As of June 30, 2020, the District's bank deposits consisted of the following collateral coverage:

Total bank deposits	\$ 5,558,334
FDIC insurance coverage	(250,000)
Fair market value of pledged securities	<u>(6,426,305)</u>
Over collateralized deposits	<u>\$ (1,117,971)</u>

The District's investments as of June 30, 2020 are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Credit Rating</u>
Cash in Bank	\$ 5,558,334	\$ 5,558,334	n/a
Investment Pool - TexPool	1,389,286	1,389,286	n/a
Investment Pool - TexStar	35,800	35,800	n/a
Investment Pool - Texas Class	<u>10,747</u>	<u>10,747</u>	n/a
Totals	<u>\$ 6,994,167</u>	<u>\$ 6,994,167</u>	

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2020, consisted of the following amounts:

Due to General Fund from:	
Non-Major Governmental Funds	\$ 91,394
Debt Service Fund	125,000
Private Purpose Trust Fund	<u>636</u>
Total Due to General Fund	<u>\$ 217,030</u>

Due to Debt Service Fund from:	
General Fund	<u>\$ 2,269</u>
Total Due to Fiduciary Fund	<u>\$ 2,269</u>

Transfers are used to move revenues from the General Fund to supplement various Special Revenue Funds. There were no transfers for the year ended June 30, 2020.

E. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the fund financial statements excluding amounts related to TRS (See Notes K and L) at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Unavailable revenue - property taxes	<u>\$ 413,651</u>	<u>\$ 104,347</u>	<u>\$ 517,998</u>

F. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables in the Fund Financial Statements at June 30, 2020, were as follows:

	<u>Property Taxes</u>	<u>Due from Other Govts</u>	<u>Due from Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 506,598	\$ 1,030,589	\$ 217,030	\$ 419	\$1,754,636
Debt Service Fund	128,029	-	2,269	-	130,298
Non-Major Governmental Funds	<u>-</u>	<u>167,846</u>	<u>-</u>	<u>(69)</u>	<u>167,777</u>
Total - Governmental Activities	<u>\$ 634,627</u>	<u>\$ 1,198,435</u>	<u>\$ 219,299</u>	<u>\$ 350</u>	<u>\$2,052,711</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ (116,630)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (116,630)</u>



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

F. DISAGGREGATION OF RECEIVABLES AND PAYABLES (continued)

Payables in the Fund Financial Statements at June 30, 2020, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$ 79,296	\$ 1,139,277	\$ 2,269	\$ -	\$1,220,842
Debt Service Fund	-	-	125,000	80,870	205,870
Non-Major Governmental Funds	<u>26,466</u>	<u>73,351</u>	<u>91,394</u>	<u>-</u>	<u>191,211</u>
Total - Governmental Activities	<u>\$ 105,762</u>	<u>\$ 1,212,628</u>	<u>\$ 218,663</u>	<u>\$ 80,870</u>	<u>\$1,617,923</u>
Proprietary Activities:					
Internal Service Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total - Proprietary Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fiduciary Activities:					
Trust Fund	\$ -	\$ -	\$ 636	\$ 100	\$ 736
Agency Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,747</u>	<u>19,747</u>
Total - Fiduciary Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 636</u>	<u>\$ 19,847</u>	<u>\$ 20,483</u>



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

G. CAPITAL ASSET ACTIVITY

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

	<u>Beginning</u> Balance	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,436,923	\$ -	\$ -	\$ 1,436,923
Total capital assets not being depreciated	<u>1,436,923</u>	<u>-</u>	<u>-</u>	<u>1,436,923</u>
Capital assets, being depreciated:				
Building and improvements	28,396,655	58,566	-	28,455,221
Furniture and equipment	2,187,410	118,244	-	2,305,654
Infrastructure	2,853,362	17,183	-	2,870,545
Vehicles	1,917,170	81,706	-	1,998,876
Total capital assets being depreciated	<u>35,354,597</u>	<u>275,699</u>	<u>-</u>	<u>35,630,296</u>
Less accumulated depreciation for:				
Building and improvements	10,029,679	510,299	-	10,539,978
Furniture and equipment	1,423,362	113,169	-	1,536,531
Infrastructure	1,306,789	113,828	-	1,420,617
Vehicles	1,458,227	105,122	-	1,563,349
Total accumulated depreciation	<u>14,218,057</u>	<u>842,418</u>	<u>-</u>	<u>15,060,475</u>
Total capital assets being depreciated, net	<u>21,136,540</u>	<u>(566,719)</u>	<u>-</u>	<u>20,569,821</u>
Governmental activities capital assets, net	<u>\$ 22,573,463</u>	<u>\$ (566,719)</u>	<u>\$ -</u>	<u>\$ 22,006,744</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 340,781
Instructional Resources	14,569
School Leadership	6,662
Guidance, Counseling and Evaluation	3,155
Health Services	631
Student (Pupil) Transportation	87,983
Food Services	48,933
Co-curricular/Extracurricular Activities	238,705
General Administration	2,414
Plant Maintenance and Operations	91,951
Security and Monitoring	2,452
Data Processing Services	<u>4,182</u>
Total Depreciation Expense	<u>\$ 842,418</u>



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

H. BONDS AND LONG-TERM LIABILITIES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Interest is payable on the bonds semiannually with interest rates ranging from 0.78% to 3.0%. The bonds mature through August 15, 2030.

The District sold new bonds in 2012 in order to refund a portion of the previously issued 2005 Bonds. The new bonds had a face value of \$8,210,000. The estimated refunding savings using present value is \$1,447,023 with a present value benefit of 17.625%. There is a deferred charge for refunding the bonds of \$1,090,805 and a premium paid of \$1,197,323 of which will be amortized over the life of the bonds. The amortized amounts for the current year are \$60,563 for the deferred charge for refunding and \$66,477 for the premium paid. This bond is scheduled to mature on August 15, 2030.

The District sold new bonds in 2014 in order to refund a portion of the previously issued 2005 Bonds. The new bonds had a face value of \$3,612,768. The estimated refunding savings using present value is \$258,119 with a present value benefit of 7.144%. There is a deferred charge for refunding the bonds of \$599,583 and a premium paid of \$2,322,405 of which will be amortized over the life of the bonds. The amortized amounts for the current year are \$59,925 for the deferred charge for refunding and \$232,114 for the premium paid. This bond is scheduled to mature on August 15, 2023.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

H. BONDS AND LONG-TERM LIABILITIES PAYABLE (continued)

A summary of changes in general long-term liabilities for the year ended June 30, 2020 is as follows:

<u>Description</u>	<u>Average Interest Rate Payable</u>	<u>Amounts Originally Issued</u>	<u>Interest Current Year</u>	<u>Amounts Outstanding 7/1/2019</u>	<u>Issued & Accreted Interest</u>	<u>Retired</u>	<u>Outstanding 6/30/2020</u>
2012 Refunding Bonds	2.00% to 3.00%	8,195,000	220,675	7,675,000	-	65,000	7,610,000
2012 CAP Bonds**	2.18%	15,000	-	710,067	15,563	-	725,630
2014 CAP Bonds **	0.78% to 3.00%	3,612,768	422,921	4,438,451	102,105	527,079	3,590,556
Unamortized (Discount) Premium	N/A	3,519,728	-	1,678,454	-	298,591	1,379,863
Other Noncurrent Liabilities - Accrued Sick Time			-	39,935	-	3,590	36,345
Total Noncurrent Liabilities				<u>\$ 643,596</u>	<u>\$ 14,541,907</u>	<u>\$ 117,668</u>	<u>\$ 894,260</u>
							<u>\$13,342,394</u>

** Capital Appreciation bonds - Additions are made up of interest accreted on capital appreciation bonds for the twelve months ended June 30, 2020. The capital appreciation bonds were originally recorded at their face value and have only been reduced as principal payments were paid. Since these bonds mature at different dates through the year 2031, for GASB Statement No. 34, the bonds are now included in bonds payable at their accreted value, for principal amounts due as of June 30, 2020.

Total accumulated accreted interest included in the June 30, 2020 outstanding balance for the 2012 CAP Bond was \$710,630.

Total accumulated accreted interest included in the June 30, 2020 outstanding balance for the 2014 CAP Bonds was \$1,963,715.

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 as of June 30, 2020.



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

I. DEBT SERVICE REQUIREMENTS - BONDS PAYABLE

Debt service requirements for bonds are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	1,010,000	218,725	1,228,725
2022	1,020,000	216,700	1,236,700
2023	1,020,000	214,600	1,234,600
2024	1,020,000	212,500	1,232,500
2025	1,085,000	207,175	1,292,175
2026-2030	5,795,000	610,675	6,405,675
2031	<u>1,255,000</u>	<u>18,825</u>	<u>1,273,825</u>
 Total Bonds Payable	 \$ 12,205,000	 \$ 1,699,200	 \$ 13,904,200
 Less Future Accretions	 <u>(278,814)</u>	 <u>-</u>	 <u>(278,814)</u>
 Total Noncurrent Liabilities	 <u>\$ 11,926,186</u>	 <u>\$ 1,699,200</u>	 <u>\$ 13,625,386</u>

Debt service requirements by bond for 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012 Refunding Bonds	\$ 65,000	\$ 218,725	\$ 283,725
2012 CAP Bonds	-	-	-
2014 CAP Bonds	<u>945,000</u>	<u>-</u>	<u>945,000</u>
 Total Bonds Payable	 \$ 1,010,000	 \$ 218,725	 \$ 1,228,725
 Less Accreted Interest	 <u>(473,379)</u>	 <u>-</u>	 <u>(473,379)</u>
 Total current Liabilities	 <u>\$ 536,621</u>	 <u>\$ 218,725</u>	 <u>\$ 755,346</u>

J. OTHER LONG-TERM LIABILITIES

On April 6, 1996, the Board of Trustees adopted a policy to provide a retirement benefit for all District employees with at least ten years of service with the District. At date of separation of service and upon filing for retirement benefits from the TRS eligible employees will be paid for unused sick/personal leave at a rate of \$20 per day of accrued leave. Upon retirement or death of certain employees, the District pays any accrued sick leave in a lump sum cash payment to such employee or his/her estate.

A summary of changes in long-term liabilities related to accumulated unpaid sick leave for the year ended June 30, 2020 is as follows:

	<u>Beginning Payable Amount Outstanding</u>	<u>Added (Retired), net</u>	<u>Ending Payable Amount Outstanding</u>
Personal / Sick Leave Liability	\$ 39,935	\$ (3,590)	\$ 36,345



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN

Plan Description. The District participates in a cost-sharing multiple-employer defined benefit pension plan (the plan) that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). The 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 report that 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.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill (SB) 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019. SB 12 of the 86th Texas Legislature set higher contribution rates for fiscal years 2020 and 2021. Beginning September 1, 2019, all employers are required to pay the public education employer contribution of 1.5%. This “surcharge” was previously only charged to employers not participating in social security.

	Contributions Required and Made
Member (Employee)	\$ 717,980
Non-employer contributing entity (State)	404,861
District	283,222

Contribution rates for Plan fiscal year (September to August) 2018 and 2019 follow:

	Contribution Rates Plan Fiscal Year	
	2019	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employer	6.8%	7.5%

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 the new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding sources or a privately sponsored source.

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.
- Employers must contribute 1.5% of the members’ salary (“Public Education Employer Surcharge”).



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions.

Roll Forward - A change was made in the measurement date of the total pension liability for the 2019 measurement year. The actuarial valuation was performed as of August 31, 2018. Update procedures were used to roll forward the total pension liability to August 31, 2019.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2018 and were adopted in July 2018.

The active mortality rates were based on 90 percent of the RP 2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables.

The following table discloses the assumptions that were applied to this measurement period.

Valuation Date	August 31, 2018 Rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases *	3.05% to 9.05%
Payroll Growth Rate	3.00%
Benefit Changes During the Year	None
Ad Hoc Post Employment Benefit Changes	None
* <i>Includes Inflation</i>	

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



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate. The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the statutorily required rates set by the Legislature during the 2019 legislative session. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>New Target Allocation**</u>	<u>Long-Term Expected Geometric Real Rate of Return***</u>
Global Equity			
U.S.	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00%	13.00%	6.30%
Emerging Markets	9.00%	9.00%	7.30%
Directional Hedge Funds	4.00%	0.00%	0.00%
Private Equity	13.00%	14.00%	8.40%
Stable Value			
U.S. Treasuries****	11.00%	16.00%	3.10%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	5.00%	4.50%
Real Return			
Global Inflation Linked Bonds****	3.00%	0.00%	0.00%
Real Estate	14.00%	15.00%	8.50%
Energy, Natural Resources and Infrastructure	5.00%	6.00%	7.30%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	8.00%	5.80/6.50*****
Asset Allocation Leverage Cash	1.00%	2.00%	2.50%
Asset Allocation Leverage	<u>0.00%</u>	<u>(6.00)%</u>	<u>2.70%</u>
Total	<u>100%</u>		<u>7.23%</u>

* FY 2019 Target Allocations are based on the Strategic Asset Allocation dated 10/1/2018

** New target allocation based on the Strategic Asset Allocation dated 10/1/2019

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

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

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



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportional share of the net pension liability	\$ 6,279,566	\$ 4,085,213	\$ 2,307,364

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2020, the District reported a liability of \$4,085,213 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	\$ 4,085,213
State's proportionate share that is associated with the District	6,013,179
Total	\$ 10,098,392

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net pension liability was 0.0078587294%, which was an increase of 0.0006596432% from its proportion measured as of August 31, 2018.

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

- The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.
- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

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



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

K. DEFINED BENEFIT PENSION PLAN (continued)

For the measurement period June 30, 2020, the District recognized pension expense of \$1,794,464 and revenue of \$944,586 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,162	\$ 141,845
Changes in actuarial assumptions	1,267,434	523,764
Difference between projected and actual investment earnings	41,020	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	555,529	43,958
Contributions paid to TRS subsequent to the measurement date	244,795	-
Total	\$ 2,125,940	\$ 709,567

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

Year ended June 30	
2021	\$ 286,897
2022	237,936
2023	273,335
2024	275,268
2025	121,543
Thereafter	(23,401)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.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.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

Benefits Provided. TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension system. Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The General Appropriations Act passed by the 86th Texas Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th Texas legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures. The premium rates for retirees are presented in the following table:

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

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

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of salary. Section 1575.204 establishes a public school contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee's pay for fiscal year 2019. The following table shows contributions to the TRS-Care plan by type of contributor.

		Contributions Required and Made
Member (Employee)	\$	60,610
Non-employer contributing entity (State)		95,788
District		77,647



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

Contribution rates for Plan fiscal year (September to August) 2019 and 2020 follow:

	Contribution Rates	
	Plan Fiscal Year	
	2019	2020
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employer	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$73.6 million in fiscal year 2019.

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

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2018 Rolled Forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% - 9.05%
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad-hoc Post Employment Benefit Changes	None



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

The impact of the Cadillac Tax that is returning in fiscal year 2023, has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.30 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Discount Rate. A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the 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.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability.

	1% Decrease 1.63%	Current Discount Rate 2.63%	1% Increase 3.63%
District's proportional share of the net OPEB liability	\$ 5,799,644	\$ 4,803,731	\$ 4,024,626

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportional share of the net OPEB liability	\$ 3,918,715	\$ 4,803,731	\$ 5,989,245



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2020, the District reported a liability of \$4,803,731 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$	4,803,731
State's proportionate share that is associated with the District		<u>6,383,083</u>
 Total		 <u>\$ 11,186,814</u>

The Net OPEB Liability was measured as of August 31, 2019 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.0101577630%, which was an increase of 0.0003667493% from its proportion measured as of August 31, 2018.

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

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the Total OPEB liability (TOL).
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

Changes in Benefit Terms: There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2020, the District recognized OPEB expense of \$362,617 and revenue of \$168,232 for support provided by the State.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

At June 30, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 235,664	\$ 786,080
Changes in actuarial assumptions	266,810	1,292,086
Difference between projected and actual investment earnings	518	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	554,862	-
Contributions paid to TRS subsequent to the measurement date	66,758	-
Total	\$ 1,124,612	\$ 2,078,166

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

Year ended August 31		
2021	\$	(189,789)
2022		(189,789)
2023		(189,957)
2024		(190,053)
2025		(190,030)
Thereafter		(70,694)

M. HEALTH CARE COVERAGE

During the year ended June 30, 2020, the District provided medical benefits coverage (the Plan) to its employees through the TRS. The Plan was created and is operated under the provisions of the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343) enacted by the 77th Legislature. H.B. 3343 established a new statewide health coverage program for public school employees and their dependents. The TRS began administering the Plan, known as the TRS-ACTIVECARE, as of September 1, 2003. The Plan includes employees of most small to mid-size districts, charter schools, education service centers, and certain other employees.

Participants in the Plan can choose from several different benefit options, and must meet certain eligibility requirements. Currently, participants must either be an active, contributing, TRS member or must be employed for 10 or more hours each week to be eligible for coverage under the Plan.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

M. HEALTH CARE COVERAGE (continued)

Each member district is billed monthly based upon the number of employees participating in the Plan. The District contributed \$245 per month per full time employee to the Plan. For the year ended June 30, 2020, total payments to the Plan by the District were \$917,326, of which \$549,826 was paid by the District's employees, resulting in a net cost to the District for health benefit coverage of \$367,500.

According to the Plan's administrator, Plan participants retain the risk associated with the Plan, with no risks being transferred or assumed by the TRS, member districts, or by the State of Texas. Additional information pertaining to the Plan can be obtained by contacting the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, by calling the TRS at 1-800-223-8778, or by downloading information from the TRS website at www.trs.state.tx.us.

N. ACCOUNTING FOR EMPLOYEE BENEFITS - ON-BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. For the years ending June 30, 2020, 2019, and 2018, the District's portion of subsidy reimbursements received by TRS and recognized as equal expenditures/expenses was \$45,391, \$31,285, and \$23,596, respectively. The plan covering these retired employees is the Teacher Retirement System of Texas, and these on-behalf payments are being made by the federal government to the State of Texas as a pass through grant to the Texas Education Agency on behalf of the District.

O. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Amounts due from state agencies at year end consisted of the following:

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$ 1,030,589	\$ -	\$ 1,030,589
Debt Service Fund	-	-	-
Non-Major			
Governmental Funds	-	167,846	167,846
Total	<u>\$ 1,030,589</u>	<u>\$ 167,846</u>	<u>\$ 1,198,435</u>



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Property taxes	\$ 2,959,983	\$ 754,743	\$ -	\$ 3,714,726
Penalties, interest and other	104,504	9,079	-	113,583
Investment income	65,698	9,619	244	75,561
Food sales	-	-	179,817	179,817
Co-curricular student activities	37,468	-	196,813	234,281
Other	<u>73,360</u>	<u>-</u>	<u>-</u>	<u>73,360</u>
Total	<u>\$ 3,241,013</u>	<u>\$ 773,441</u>	<u>\$ 376,874</u>	<u>\$ 4,391,328</u>

Q. LITIGATION AND CONTINGENCIES

At June 30, 2020, the District had no known or threatened pending litigation that would materially affect the District's financial condition.

The District participates in numerous state and federal grant programs that 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 collectability of any receivable at June 30, 2020 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 combined financial statements for such contingencies.

R. CONSTRUCTION, SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District has no significant construction projects or other commitments and contingencies as of June 30, 2020.

S. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Fund 244 "Career and Technical - Basic Grant". The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Region 16 Education Service Center, nor a net equity interest in the fiscal agent. The District accounts for its share of the revenues and expenditures of the shared service arrangement in Fund 244. The fiscal agent is responsible for all financial activities of the shared service arrangement.

The District participates in a shared services arrangement for Fund 224 "IDEA - Part B Formula". The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Amarillo Independent School District (188-901), nor a net equity interest in the fiscal agent. The District accounts for its share of the revenues and expenditures of the shared service arrangement in Fund 224. The fiscal agent is responsible for all financial activities of the shared service arrangement. The District contributed \$44,239 to the shared services agreement during the current year.



**RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

T. RISK MANAGEMENT - WORKERS' COMPENSATION INSURANCE

On September 1, 1999, the District established its self-funding Workers' Compensation program. Workers' Compensation Solutions, Inc., through its actuarial review of the Workers' Compensation self-insurance program, projected an undiscounted liability of \$219,092 as of June 30, 2020.

Claims administration is provided by Workers' Compensation Solutions, Inc. for the period beginning September 1, 2003.

The accrued liability for Workers' Compensation self insurance of \$219,092 includes incurred but not reported claims. This liability reported in the fund at June 30, 2020, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statement indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability booked was the undiscounted estimate of actuary at the 90th percentile funding level.

U. GENERAL FUND FEDERAL SOURCE REVENUE

Federally financed programs are generally accounted for in the Special Revenue Funds of the District, except for indirect and other costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA. The District recognized in the General Fund such revenues for the year ended June 30, 2020, from various federal sources as follows:

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
SHARS reimbursements	93.774	\$ 238,255
MAC reimbursements	93.778	1,336

V. PROPERTY PROGRAM

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters for which the District participates as a self funded member of the Property Casualty Alliance of Texas (the "Fund"). All government entities participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund protects the District against higher than expected claims costs through the purchase of stop loss coverage for any covered claim in excess of the Fund's self-insured retentions.

The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on February 28. The Fund's audited financial statements as of February 28, 2020, are available at the Property Casualty Alliance of Texas Offices.



RIVER ROAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2020

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)

W. SERVICE CONTRACT WITH REGION 16 EDUCATION SERVICE CENTER

The District has contracted with Region 16 Education Service Center (Region 16) to perform certain accounting duties for the District for the 2019-2020 fiscal year. The contracted amount of \$40,000 includes the reconciliation of the general fund bank accounts; review of accounting records including balance sheet accounts, revenue and expense accounts, due to/due from accounts, journal and budget entries and payroll balancing; and assisting with budget preparation, journal entries and payroll. The contract with Region 16 may be renewed annually. The District also pays Region 16 for the use of its accounting software, approximately \$12,000 annually. Also, the District pays Region 16 consulting services for certain compliance and administrative services, approximately \$115,000 annually.

X. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The requirements of this identifying Statement will enhance consistency and comparability by (1) establishing specific criteria for activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in the financial statements for assessing government accountability and stewardship. In May 2020, GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date of GASB Statement 84 for entities that have not yet issued financial statements or made financial statements available for issuance by one year. The new effective date for GASB Statement 84 is reporting periods beginning after December 15, 2019. Early application is encouraged. Management is currently evaluating the impact of the adoption of Statement 84 on the District's financial statements.

In June 2017 the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. In May 2020, GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date of GASB Statement 87 for entities that have not yet issued financial statements or made financial statements available for issuance by one year. The new effective date for GASB Statement 87 is reporting periods beginning after June 15, 2021. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or, if applied to earlier periods, the beginning of the earliest period restated.) However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. Management is currently evaluating the impact of the adoption of Statement 87 on the District's financial statements.

Y. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through November 9, 2020, the date the financial statements were available to be issued.



APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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

RIVER ROAD INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS,
SERIES 2021, DATED JULY 1, 2021,
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$7,475,000

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

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond No. T-1).

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed or refinanced therewith, the certification of Specialized Public Finance Inc. verifying the sufficiency of the amounts deposited with BOKF, NA, as deposit agent, to pay all principal and interest due on the Refunded Obligations on their redemption date, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Issuer to comply with



such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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.

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the “Service”). Rather, our 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. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, might result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

Very truly yours,

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES