

OFFICIAL STATEMENT
Dated March 10, 2020

NEW ISSUE – BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED MOODY'S RATING: – "Aaa"/Aa2"
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE
PROGRAM" and "OTHER PERTINENT INFORMATION –
Municipal Bond Ratings" herein)

In the opinion of Bond Counsel (defined below), under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

The Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions.



\$67,295,000
DUMAS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Moore County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

Dated Date: March 1, 2020

Due: February 1, as shown on page -ii- herein

Interest Accrues from Date of Delivery (defined below)

The "Dumas Independent School District Unlimited Tax School Building Bonds, Series 2020" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the Dumas Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 5, 2019 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order"), adopted by the Board of Trustees (the "Board") of the District on March 10, 2020. See "THE BONDS – Authority for Issuance" herein.

Interest on the Bonds will accrue from the Date of the Delivery (defined below) of the Bonds, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing February 1, 2021 and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially UMB Bank, N.A., Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used (i) for the purposes of construction, acquisition, renovation, and equipment of school buildings of the District and the purchase of sites for school buildings and (ii) paying the costs of issuing the Bonds. See "SOURCES AND USES OF FUNDS" herein.

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein**

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, Austin, Texas, Bond Counsel (see "LEGAL MATTERS"; "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" hereto). Certain matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about April 7, 2020 (the "Date of Delivery").

HILLTOP SECURITIES

RBC CAPITAL MARKETS

BOK FINANCIAL SECURITIES, INC.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND
REDEMPTION PROVISIONS**

\$67,295,000

DUMAS INDEPENDENT SCHOOL DISTRICT

**(A political subdivision of the State of Texas located in Moore County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

CUSIP No. Prefix 264669^(*)

Stated Maturity February 1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix^(**)
2021	2,365,000	4.000	0.750	GA4
2022	1,205,000	4.000	0.780	GB2
2023	1,250,000	4.000	0.810	GC0
2024	1,305,000	4.000	0.840	GD8
2025	1,365,000	5.000	0.880	GE6
2026	1,435,000	5.000	0.980	GF3
2027	1,505,000	5.000	1.060	GG1
2028	1,585,000	5.000	1.130	GH9
2029	1,665,000	5.000	1.200	GJ5
2030	1,750,000	5.000	1.250 ⁽¹⁾	GK2
2031	1,840,000	5.000	1.300 ⁽¹⁾	GL0
2032	1,905,000	2.000	2.030	GM8
2033	1,945,000	2.000	2.080	GN6
2034	1,985,000	2.125	2.150	GP1
2035	2,030,000	2.250	2.250	GQ9
2036	2,095,000	4.000	1.640 ⁽¹⁾	GR7
2037	2,180,000	4.000	1.680 ⁽¹⁾	GS5
2038	2,265,000	4.000	1.720 ⁽¹⁾	GT3
2039	2,360,000	4.000	1.760 ⁽¹⁾	GU0
2040	2,455,000	4.000	1.790 ⁽¹⁾	GV8

\$13,865,000 4.000% Term Bond due February 1, 2045, Priced to Yield 1.980%⁽¹⁾, CUSIP No. Suffix GW6^(*)

\$16,940,000 4.000% Term Bond due February 1, 2050, Priced to Yield 2.120⁽¹⁾, CUSIP No. Suffix GX4^(*)

(Interest to accrue from the Date of Delivery)

The District reserves the option to redeem the Bonds maturing on and after February 1, 2030, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. In addition, the Term Bonds (defined herein) are subject to mandatory sinking fund redemption, as described herein. (See "THE BONDS – Optional Redemption" and "- Mandatory Redemption" herein.)

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

⁽¹⁾ Yield for the Bonds denoted and sold at a premium is calculated to their first optional redemption date, February 1, 2029.

DUMAS INDEPENDENT SCHOOL DISTRICT
421 W. 4th Street
Dumas, Texas 79029

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Patty Willis	President	May 2022	Construction
Brent Clark	Vice President	May 2021	Agriculture
Brandon Skipworth	Secretary	May 2021	Financial Advisor
Jay Davis	Member	May 2020	Agriculture
Chris Johnson	Member	May 2020	Banking
Joe Rivera	Member	May 2022	Insurance
Brett Stegall	Member	May 2021	Insurance

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Monty Hysinger	Superintendent
Daniel West	Chief Financial Officer

CONSULTANTS AND ADVISORS

Bracewell LLP, Austin, Texas	Bond Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Coy Barton, Dumas, Texas	Certified Public Accountants

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from 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 Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

The Underwriters provided the following sentence for inclusion in this Official Statement. The Underwriters reviewed the information in this Official Statement in accordance with, and as part of their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Financial Advisor provided the following sentence for inclusion in this Official Statement. The Financial Advisor reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and 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.

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.

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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE DISTRICT	The Dumas Independent School District (the "District") is located in Moore County, Texas. The District is located 50 miles north of Amarillo on U.S. Highway 87/287. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS	<p>The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "THE BONDS").</p> <p>Interest on the Bonds shall accrue from the Date of Delivery (identified below) and is payable semiannually on February 1 and August 1, commencing February 1, 2021, until stated maturity or prior redemption.</p>
DATED DATE	March 1, 2020.
DATE OF DELIVERY	April 7, 2020.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on and after February 1, 2030, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. In addition, the Term Bonds (defined herein) are subject to mandatory sinking fund redemption. See "THE BONDS – Optional Redemption" and "– Mandatory Redemption" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	<p>In the opinion of Bracewell LLP, Austin, Texas, Bond Counsel to the District, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.</p> <p>The Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions.</p>
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE BONDS – Permanent School Fund Guarantee Program" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas.
MUNICIPAL BOND RATING ...	The Bonds have been rated "Aaa" by Moody's Investor Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds are rated "Aa2" by Moody's without regard to credit enhancement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional ad valorem tax-supported debt in the calendar year 2020.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about April 7, 2020 (the "Date of Delivery").
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Bracewell LLP, Austin, Texas, Bond Counsel (see "THE BONDS – Legality" and "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" herein).

OFFICIAL STATEMENT

relating to

\$67,295,000

DUMAS INDEPENDENT SCHOOL DISTRICT

**(A political subdivision of the State of Texas located in Moore County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the "Dumas Independent School District Unlimited Tax School Building Bonds, Series 2020" (the "Bonds"). The Bonds are direct obligations of the Dumas Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended Texas Education Code, an election held in the District on November 5, 2019 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order"), adopted by the Board of Trustees (the "Board") of the District on March 10, 2020. See "THE BONDS – Authority for Issuance" herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

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

Included in this Official Statement are descriptions of the Bonds, the Order and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Dumas Independent School District, 421 W. 4th Street, Dumas, Texas 79029, Attention: Chief Financial Officer and, during the offering period from the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, Attention: Christian Merritt, upon request by electronic mail or upon payment of reasonable copying, mailing and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE" for a description of the District's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

Purpose

The Bonds are being issued: (i) for the purposes of construction, acquisition, renovation, and equipment of school buildings of the District and the purchase of sites for school buildings and (ii) paying the costs of issuing the Bonds.

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Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$67,295,000.00
Net Reoffering Premium on the Bonds	<u>10,355,894.45</u>
TOTAL SOURCES	\$77,650,894.45
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$77,000,000.00
Underwriters' Discount	350,573.99
Costs of Issuance and Contingency	<u>300,320.46</u>
TOTAL USES	\$77,650,894.45

THE BONDS

General Description

The Bonds will be dated March 1, 2020 and will accrue interest from the Date of Delivery (defined herein), and such interest shall be payable on February 1 and August 1 in each year, commencing February 1, 2021, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, 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 (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, the Election held in the District on November 5, 2019, and the Order authorizing the issuance of the Bonds adopted by the Board of the District on March 10, 2020.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Permanent School Fund Guarantee

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Optional Redemption

The District reserves the option to redeem the Bonds maturing on and after February 1, 2030, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2029, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Redemption

The Bonds stated to mature on February 1, 2045 and February 1, 2050 are referred to herein as the "Term Bonds". The Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Interest and Sinking Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 1 in each of the years as set forth below:

<u>Term Bonds Stated to Mature on February 1, 2045</u>		<u>Term Bonds Stated to Mature on February 1, 2050</u>	
<u>Year</u>	<u>Principal Amount (\$)</u>	<u>Year</u>	<u>Principal Amount (\$)</u>
2041	2,555,000	2046	3,120,000
2042	2,660,000	2047	3,250,000
2043	2,770,000	2048	3,385,000
2044	2,880,000	2049	3,520,000
2045**	3,000,000	2050**	3,665,000

** Stated maturity.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following February 1 from moneys set aside for that purpose in the Interest and Sinking Fund. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity. The principal amount of the Term Bonds for a stated maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like stated maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption

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

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain

Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

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

Defeasance

The Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a 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 in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid for purposes of applying any debt limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge, 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, the District may reserve the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the 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.

Defeasance will cancel the Permanent School Fund Guarantee with respect to any defeased Bonds.

Amendments to Bond Order

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

Bondholders' Remedies

The Order provides that each of the following occurrences or events will be an Event of Default under the Order: (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement, or obligation of the District, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the District.

Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the District for the purpose of protecting and enforcing the rights of the Owners under the Order by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies. All such proceedings shall be instituted and maintained for the equal benefit of all Owners of Bonds then outstanding.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. 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 United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.)

The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered for delivery when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and approval of certain legal matters by Bracewell LLP, Austin, Texas, as Bond Counsel (see "LEGAL MATTERS" and "APPENDIX D — Forms of Bond Counsel's Opinion").

Delivery

When issued; anticipated to occur on or about April 7, 2020 (the "Date of Delivery").

Future Issues

The District does not anticipate the issuance of additional ad valorem tax-supported debt in calendar year 2020.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. In the Bond Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid. Any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State 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 mailing address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on 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. If the date for the payment of the principal of or interest on the Bonds is not a Business Day, then the date for such payment will be the next succeeding Business Day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM," above.

Record Date

The record date ("Record Date") for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the 15th day of the month preceding the interest payment date.

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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System should be discontinued, printed certificates will be issued to the registered owners of the Bonds 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 will 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 at the registered owner's expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three 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. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will 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 will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

BOOK-ENTRY-ONLY SYSTEM

The following describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC 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 will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor or the Underwriters.

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and four citizen members appointed by the Governor. (See “2019 Texas Legislative Session” for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the “GLO”) managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 million.

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

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change 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 will be 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 2018. 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. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund

investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation 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, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency), and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. 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.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% in unallocated cash.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to 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. At August 31, 2019, the State Law Capacity increased from \$118,511,255,268 on August 31, 2018 to \$123,509,204,770 on August 31, 2019 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the

“Capacity Reserve.” The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. 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 February 27, 2019 (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 5.85%. As of January 31, 2020, there were 183 active open-enrollment charter schools in the State and there were 788 charter school campuses operating under such charters (though as of such date, two of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBG Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the

CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. 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. In September 2017 and June 2018, the SBOE authorized the full 20% increase in the amount of charter district bonds that may be guaranteed for fiscal years 2018 and 2019, respectively, which increases the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee

by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of December 31, 2019, the Charter District Reserve Fund contained \$35,096,557, which represented approximately 1.48% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school

districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF. Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

⁽²⁾ At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At December 31, 2019, the PSF had a book value of \$35,402,400,338 and a market value of \$48,020,026,798. December 31, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

⁽²⁾ As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

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Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
2015	3,089	\$63,197,514,047	28	\$ 757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽³⁾	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

⁽¹⁾ Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

⁽²⁾ At December 31, 2019 (based on unaudited data, which is subject to adjustment), there were \$88,291,231,320 of bonds guaranteed under the Guarantee Program, representing 3,401 school district issues, aggregating \$85,920,336,320 in principal amount and 54 charter district issues, aggregating \$2,370,895,000 in principal amount. At December 31, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$4,350,476,526 (based on unaudited data, which is subject to adjustment).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

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

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

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

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

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

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

2011 and 2019 Constitutional Amendments

On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition,

approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

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

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

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

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing,

investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

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

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

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

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

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

Event Notices

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

Availability of Information

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

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Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county wide 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 Moore County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of

property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

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.

2017 Litigation

During its 2015 Regular Legislative Session, the Texas Legislature enacted certain legislation ("S.B. 1"), the effectiveness of which was conditioned on statewide voter approval of a constitutional amendment. S.B. 1 increased the state mandated homestead exemption for a school district to \$25,000 and concurrently prohibited the governing body of a school district that adopted a local option homestead exemption ("LOHE") for the 2014 tax year from reducing the amount of, or repealing, such LOHE. Prior to the statewide election on the constitutional amendment, the Board determined to reduce the amount of its LOHE beginning in the 2015 tax year.

In 2017, a single taxpayer sued the District claiming the District improperly reduced its LOHE for tax years 2015 through 2019 and requesting a refund of the taxes collected by the District that would otherwise have been subject to the LOHE. The litigation is still ongoing and the District cannot determine at this time what impact, if any, the outcome of such litigation may have on the District's budget. However, the District does not anticipate that the pendency, or potential outcome, of this litigation will materially affect the issuance of, or security for, the Bonds.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising the property in the District as well as other taxing units in Moore County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Moore County political subdivisions. The District's taxes are collected by the Moore County Tax Assessor/Collector.

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

The District's taxes are collected by the Moore County Tax Assessor/Collector's Office (the "Tax Assessor/Collector").

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

The Tax Assessor/Collector does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code after July 1. Interest continues to accrue after July 1 at the rate of 1% per month until paid.

The Tax Assessor/Collector does not allow split payments of taxes.

The Tax Assessor/Collector does not give discounts for early payment of taxes.

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

The District does grant tax abatements under the Chapter 313 Property Value Limitations.

The District does grant the additional local option exemption of up to 5% of the market value of residence homesteads; minimum exemption of \$5,000.

The District grants a state mandated homestead exemption of \$25,000 for taxpayers.

See Table 1 included in APPENDIX A hereto for listing of the amounts of the exemptions described above.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

Local Funding for School Districts

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

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

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

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

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

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

State Funding for School Districts

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

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

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

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the school district's local share. EDA and IFA allotments supplement a school district's

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

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

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

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

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service

payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding

entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For 2019-2020, the District was not designated as an "excess local revenue" district. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

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TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters under section 45.003(d) of the Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on October 3, 1953, under Article 2784e-1, Texas Revised Statutes Annotated, as amended (Article 2784e-1").

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

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

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

Furthermore, a school district cannot annually increase its tax rate in excess of the school district's Voter-Approval Tax Rate without submitting such tax rate to an election and a majority of the voters voting at such election approving the adopted rate. See "– 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 for 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 as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has used neither State assistance other than EDA or IFA allotment funding nor projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

For the 2019 tax year, a school district was required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and with the failure to adopt a tax rate by such required date resulting in the tax rate for the taxing unit being the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the State Compression Percentage, multiplied by \$1.00; (ii) the greater of (a) the school district's M&O tax rate for the 2018 tax year, less the sum of (1) \$1.00, and (2) any amount by which the school district is required to reduce its Enrichment Tax Rate for the 2019 tax year, or (b) \$0.04; and (iii) the school district's I&S tax rate. For the 2019 tax year, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the product of the State Compression Percentage multiplied by \$1.00.

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district's current I&S tax rate) could not adopt tax rate for the 2019 tax year that exceeded the school district's Voter-Approval Tax Rate. For the 2019 tax year, the District was not eligible to adopt a tax rate that exceeded its Voter-Approval Tax Rate.

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

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

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

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

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

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

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are issued as new debt and the issuance is subject to this limitation.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements – Note M. – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended June 30, 2019 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "Notes to the Financial Statements, Note N. – Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended June 30, 2019 as set forth in APPENDIX C hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began

with the District's fiscal year ending June 30, 2015. See "CHANGE IN NET ASSETS" in APPENDIX A herein. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the 2018-2019 fiscal year, the District had a net pension liability of \$13,661,350.

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

INVESTMENTS

The District may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the governing body of the District. Both State law and the District's investment policies are subject to change.

Authorized Investments

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 directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) 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 (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), 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 Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the

District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (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 (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (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 (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) 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, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) 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 or resolution.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under the Code. See "TAX MATTERS — Tax Exemption" herein for a discussion of the opinion of Bond Counsel. The form of Bond Counsel's opinion is attached hereto as APPENDIX D. The legal fee to

be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of 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 appearing under captions "PLAN OF FINANCING" (excluding the information under the subcaption "Sources and Uses of Funds"), "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee," "Payment Record," "Future Issues," and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS," "CONTINUING DISCLOSURE" (except under the subcaptions "Availability of Information from MSRB" and "Compliance With Prior Agreements"), and the caption "LEGAL MATTERS" (excluding the last sentences of each of the first paragraph and the last paragraph thereof), and such firm is of the opinion that the information relating to the Bonds and legal matters 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 Order. Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, as Underwriters' Counsel.

LITIGATION

Except as disclosed elsewhere in the Official Statement generally, and in this section specifically, the District is not a party to any litigation or other pending or to its knowledge, threatened, in any court or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District. See "AD VALOREM TAX PROCEDURES – 2017 Litigation."

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

Tax Exemption

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District fails to comply with the covenants in the Bond Order or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Collateral Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of a portion of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount

The issue price of a portion of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner 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 period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption," " – Collateral Tax Consequences" and " – Tax

Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the [inside] cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues 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 (i) 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 (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that 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 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.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Government Code provides the Bonds are negotiable instruments and are investment securities governed by Chapter 8, Business & Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION — Municipal Bond 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 and savings and loan associations. The Bonds are also 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.

CONTINUING DISCLOSURE

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org. See "THE

PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. 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 under Tables numbered 1, 2, 3, 8, 9, 13, 14, 16, 17 and 18 of Appendix A – "FINANCIAL INFORMATION OF THE DISTRICT" and the District's audited financial report, Appendix C. (NOTE: Tables 16, 17, and 18 will be incorporated by reference to the District's audited financial reports, if such report is available by the required deadline.) The District will update and provide this information within six months after the end of each fiscal year ending in and after 2020, and in a narrative, tabular form consistent with the Rule that the District and its advisors determine to accurately describe the District's position. All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided hereunder may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement, other offering document, or financial report) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC") in such format and manner as permitted by SEC Rule 15c2-12 (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 statements 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 updated information by the last day of December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide notices of certain events to the MSRB. The District will provide notice to the MSRB in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events, as required by the Rule: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the 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, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and order of a court or governmental authority, or the entry of an order

confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term "Financial Obligation" shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The District intends to comply with the events in clauses (15) and (16), and has expressed its intent in the Order that the words used in clauses (15) and (16) in the preceding paragraph and in the definition of "Financial Obligation" 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 certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment as well as such changed circumstances, and (2) either (a) the 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 the 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 underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

On February 28, 2020, the District updated its annual filings relating to fiscal years 2017, 2018, and 2019 to clarify in "TABLE 3 - OTHER DEBT OBLIGATIONS OF THE DISTRICT." that the District had no long-term loans or capital leases, respective to each such fiscal year. Additionally, on February 28, 2020, the District updated its annual filing for FYE 2017 to expressly incorporate by reference Table 18 from the District's Audited Financial Statements for such fiscal year. Further, although the District filed its Audited Financial Statements for the fiscal years ending June 30, 2015 and 2016 before their applicable deadlines on December 31 of each year, the CUSIPs for the District's outstanding Series 2015 and Series 2016 bonds were not linked to such information. The District has updated this information as of March 4, 2020.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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. All of the summaries of the statutes, documents and orders 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.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Ratings

The Bonds have been rated "Aaa" by Moody's Investor Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds are rated "Aa2" by Moody's without regard to credit enhancement. An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the 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.

Financial Advisor

Live Oak Public Finance, LLC (the "Financial Advisor") is employed as the 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. Live Oak Public Finance, LLC, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with 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 the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$350,573.99. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to

certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

RBC Capital Markets, LLC ("RBCCM") has provided the following information for inclusion in this Official Statement. RBCCM is a full-service financial institution engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM may engage in transactions for its own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the District. RBCCM may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM may make a market in credit default swaps with respect to municipal securities in the future.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since June 30, 2019, the date of the last financial statements of the District appearing in the Official Statement.

Forward Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Official Statement has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Order 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.

DUMAS INDEPENDENT SCHOOL DISTRICT

/s/ Patty Willis
President, Board of Trustees

ATTEST:

/s/ Brandon Skipworth
Secretary, Board of Trustees

APPENDIX A
SELECTED FINANCIAL INFORMATION
OF THE DISTRICT

TABLE 1 - ASSESSED VALUATION ⁽¹⁾

2019 Total Market Value (Excluding Totally Exempt Property)	\$2,426,912,562
Less Exemptions:	
State-Mandated Homestead Exemption	\$83,161,406
State-Mandated Over-65 or Disabled	12,219,021
Local Homestead Exemption	22,647,043
Disabled & Deceased Veterans Exemption	1,486,846
Homestead - Over 65 of Disabled Freeze Loss	22,647,043
Freeport	60,253,483
Pollution Control	105,870,590
Ag Productivity Loss	173,802,576
10% Appraisal Cap Loss	4,740,960
2019 Net Taxable Valuation	<u>\$1,940,083,594 ⁽²⁾</u>
Freeze Loss with Local Option Deducted	<u>87,259,262</u>
2019 Freeze Adjusted Net Taxable Assessed Valuation	\$1,852,824,332 ⁽²⁾

⁽¹⁾ Moore County Appraisal District, the District, and Texas Comptroller of Public Accounts

⁽²⁾ 2019 Net Taxable Valuation includes certain amounts that are the subject to ongoing litigation relating to the District's reduction of its Local Option Homestead Exemption for tax years 2015 through 2019. See "AD VALOREM TAX PROCEDURES - 2017 Litigation."

TABLE 2 - GENERAL OBLIGATION BONDED DEBT PRINCIPAL

General Obligation Debt Principal Outstanding (As of December 31 ,2020)	
Unlimited Tax Refunding Bonds, Series 2015	\$ 8,250,000
Unlimited Tax Refunding Bonds, Series 2016	6,810,000
The Bonds	<u>67,295,000</u>
Total Gross General Obligation Principal Outstanding	<u>\$ 82,355,000</u>
Ratio of Gross General Obligation Debt Principal to 2019 Freeze Adjusted net Taxable Assessed Valuation	4.44%
2019 Freeze Adjusted Net Taxable Assessed Valuation ⁽¹⁾	\$1,852,824,332 ⁽³⁾
Current Population Estimate ⁽²⁾	20,399
Per Capita 2019 Freeze Adjusted Net Taxable Assessed Valuation	\$90,829
Per Capita Gross General Obligation Debt Principal	\$4,037

⁽¹⁾ Moore County Appraisal District

⁽²⁾ Municipal Advisory Council of Texas

⁽³⁾ 2019 Net Taxable Assessed Valuation includes certain amounts that are the subject to ongoing litigation relating to the District's reduction of its Local Option Homestead Exemption for tax years 2015 through 2019. See "AD VALOREM TAX PROCEDURES - 2017 Litigation."

TABLE 3 - OTHER DEBT OBLIGATIONS OF THE DISTRICT ⁽¹⁾Long-Terms Loans

The District had no long-term loans as of June 30, 2019.

Capital Leases

The District had no capital leases as of June 30, 2019.

⁽¹⁾ District's Audited Financial Statements, "III. L. Debt Service Requirements - Bonds, Long-Term Loans, Capital Leases, and Other Long-Term Debt"

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TABLE 4 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

FYE	Refunding Bonds, Series 2015		Refunding Bonds, Series 2016		The Bonds, Series 2020		Aggregate Debt Service		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
6/30/20	\$ -	\$ 312,000	\$ 1,430,000	\$ 257,450	\$ -	\$ -	\$ 1,430,000	\$ 569,450	\$ 1,999,450
6/30/21	-	312,000	1,445,000	221,475	2,365,000	2,167,030	3,810,000	2,700,505	6,510,505
6/30/22	-	312,000	1,480,000	177,600	1,205,000	2,558,906	2,685,000	3,048,506	5,733,506
6/30/23	-	312,000	1,505,000	125,300	1,250,000	2,510,706	2,755,000	2,948,006	5,703,006
6/30/24	800,000	300,000	760,000	80,000	1,305,000	2,460,706	2,865,000	2,840,706	5,705,706
6/30/25	-	288,000	1,620,000	32,400	1,365,000	2,408,506	2,985,000	2,728,906	5,713,906
6/30/26	1,765,000	252,700	-	-	1,435,000	2,340,256	3,200,000	2,592,956	5,792,956
6/30/27	1,830,000	185,800	-	-	1,505,000	2,268,506	3,335,000	2,454,306	5,789,306
6/30/28	1,890,000	116,400	-	-	1,585,000	2,193,256	3,475,000	2,309,656	5,784,656
6/30/29	1,965,000	39,300	-	-	1,665,000	2,114,006	3,630,000	2,153,306	5,783,306
6/30/30	-	-	-	-	1,750,000	2,030,756	1,750,000	2,030,756	3,780,756
6/30/31	-	-	-	-	1,840,000	1,943,256	1,840,000	1,943,256	3,783,256
6/30/32	-	-	-	-	1,905,000	1,851,256	1,905,000	1,851,256	3,756,256
6/30/33	-	-	-	-	1,945,000	1,813,156	1,945,000	1,813,156	3,758,156
6/30/34	-	-	-	-	1,985,000	1,774,256	1,985,000	1,774,256	3,759,256
6/30/35	-	-	-	-	2,030,000	1,732,075	2,030,000	1,732,075	3,762,075
6/30/36	-	-	-	-	2,095,000	1,686,400	2,095,000	1,686,400	3,781,400
6/30/37	-	-	-	-	2,180,000	1,602,600	2,180,000	1,602,600	3,782,600
6/30/38	-	-	-	-	2,265,000	1,515,400	2,265,000	1,515,400	3,780,400
6/30/39	-	-	-	-	2,360,000	1,424,800	2,360,000	1,424,800	3,784,800
6/30/40	-	-	-	-	2,455,000	1,330,400	2,455,000	1,330,400	3,785,400
6/30/41	-	-	-	-	2,555,000	1,232,200	2,555,000	1,232,200	3,787,200
6/30/42	-	-	-	-	2,660,000	1,130,000	2,660,000	1,130,000	3,790,000
6/30/43	-	-	-	-	2,770,000	1,023,600	2,770,000	1,023,600	3,793,600
6/30/44	-	-	-	-	2,880,000	912,800	2,880,000	912,800	3,792,800
6/30/45	-	-	-	-	3,000,000	797,600	3,000,000	797,600	3,797,600
6/30/46	-	-	-	-	3,120,000	677,600	3,120,000	677,600	3,797,600
6/30/47	-	-	-	-	3,250,000	552,800	3,250,000	552,800	3,802,800
6/30/48	-	-	-	-	3,385,000	422,800	3,385,000	422,800	3,807,800
6/30/49	-	-	-	-	3,520,000	287,400	3,520,000	287,400	3,807,400
6/30/50	-	-	-	-	3,665,000	146,600	3,665,000	146,600	3,811,600
	\$ 8,250,000	\$ 2,430,200	\$ 8,240,000	\$ 894,225	\$ 67,295,000	\$ 46,909,636	\$ 83,785,000	\$ 50,234,061	\$ 134,019,061

TABLE 5 - TAX ADEQUACY

2019 Freeze Adjusted Net Taxable Assessed Valuation ⁽¹⁾	\$	1,852,824,332
Estimated Maximum Annual Debt Service Requirements, Fiscal Year 2020-2021	\$	6,510,505
Indicated Interest and Sinking Fund Rate at 98% Collections to Produce Maximum Debt Service	\$	0.3586

⁽¹⁾ 2019 Net Taxable Assessed Valuation includes certain amounts that are the subject to ongoing litigation relating to the District's reduction of its Local Option Homestead Exemption for tax years 2015 through 2019. See "AD VALOREM TAX PROCEDURES - 2017 Litigation."

TABLE 6 - FUND BALANCES (As of January 31, 2020, unaudited)

General Operating Fund	\$	25,600,000
Debt Service Fund	\$	1,092,000
Food Service Fund	\$	118,900

Source: The District

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TABLE 7 - PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 6/30	Currently Outstanding Principal Repayment Schedule	The Bonds Principal Repayment Schedule	Combined Principal Repayment Schedule	Obligations Remaining Outstanding End of the Year	Percent of Principal Retired
2020	\$ 1,430,000	\$ -	\$ 1,430,000	\$82,355,000	
2021	1,445,000	2,365,000	3,810,000	78,545,000	
2022	1,480,000	1,205,000	2,685,000	75,860,000	
2023	1,505,000	1,250,000	2,755,000	73,105,000	
2024	1,560,000	1,305,000	2,865,000	70,240,000	14.7%
2025	1,620,000	1,365,000	2,985,000	67,255,000	
2026	1,765,000	1,435,000	3,200,000	64,055,000	
2027	1,830,000	1,505,000	3,335,000	60,720,000	
2028	1,890,000	1,585,000	3,475,000	57,245,000	
2029	1,965,000	1,665,000	3,630,000	53,615,000	34.9%
2030	-	1,750,000	1,750,000	51,865,000	
2031	-	1,840,000	1,840,000	50,025,000	
2032	-	1,905,000	1,905,000	48,120,000	
2033	-	1,945,000	1,945,000	46,175,000	
2034	-	1,985,000	1,985,000	44,190,000	46.3%
2035	-	2,030,000	2,030,000	42,160,000	
2036	-	2,095,000	2,095,000	40,065,000	
2037	-	2,180,000	2,180,000	37,885,000	
2038	-	2,265,000	2,265,000	35,620,000	
2039	-	2,360,000	2,360,000	33,260,000	59.6%
2040	-	2,455,000	2,455,000	30,805,000	
2041	-	2,555,000	2,555,000	28,250,000	
2042	-	2,660,000	2,660,000	25,590,000	
2043	-	2,770,000	2,770,000	22,820,000	
2044	-	2,880,000	2,880,000	19,940,000	70.4%
2045	-	3,000,000	3,000,000	16,940,000	
2046	-	3,120,000	3,120,000	13,820,000	
2047	-	3,250,000	3,250,000	10,570,000	
2048	-	3,385,000	3,385,000	7,185,000	
2049	-	3,520,000	3,520,000	3,665,000	
2050	-	3,665,000	3,665,000	-	100.0%
	<u>\$16,490,000</u>	<u>\$67,295,000</u>	<u>\$83,785,000</u>		

TABLE 8 - PROPERTY TAX RATES AND COLLECTIONS ⁽¹⁾

Tax Year	Freeze Adjusted Net Taxable Assessed Valuation	Tax Rate	Tax Levy	<u>% Collections ⁽²⁾</u>		Year Ended
				Current	Total	
2010	2,024,711,066	1.1449	23,180,917	93.38%	99.65%	6/30/2011
2011	1,949,543,719	1.1471	22,363,216	98.10%	99.48%	6/30/2012
2012	2,046,632,852	1.1469	23,472,832	98.11%	99.52%	6/30/2013
2013	2,115,576,581	1.1474	24,274,126	98.81%	100.39%	6/30/2014
2014	2,054,929,605	1.1446	23,520,724	97.78%	98.74%	6/30/2015
2015 ⁽³⁾	2,006,718,399	1.1415	22,906,691	98.64%	99.54%	6/30/2016
2016 ⁽³⁾	1,742,854,040	1.1520	20,077,679	98.37%	99.59%	6/30/2017
2017 ⁽³⁾	1,808,828,286	1.1500	20,801,525	98.53%	99.71%	6/30/2018
2018 ⁽³⁾	1,875,417,655	1.1479	20,880,505	97.80%	99.03%	6/30/2019
2019 ⁽³⁾	1,852,824,332	1.0779	19,971,593	(In Process)	(In Process)	6/30/2020

⁽¹⁾ Texas Comptroller of Public Accounts, District's Audited Financial Statement, Information Provided by the District, Moore County Appraisal District

⁽²⁾ Collection percentages do not include penalties or interest. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT."

⁽³⁾ Net Taxable Assessed Valuation and Collections include certain amounts that are the subject to ongoing litigation relating to the District's reduction of its Local Option Homestead Exemption for tax years 2015 through 2019. See "AD VALOREM TAX PROCEDURES - 2017 Litigation."

TABLE 9 - TAX RATE DISTRIBUTION ⁽¹⁾

	<u>2019-2020</u>	<u>2018-2019</u>	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>
Local Maintenance	0.9700	1.0400	1.0400	1.0400	1.0400
I&S Fund	0.1079	0.1079	0.1100	0.1120	0.1015
TOTAL	1.0779	1.1479	1.1500	1.1520	1.1415

⁽¹⁾ The District

TABLE 10 - ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

<u>Governmental Subdivision</u>	<u>2019 Net Taxable Assessed Valuation</u>	<u>% of Actual</u>	<u>2019 Tax Rate I&S</u>
City of Dumas	\$ 666,574,410	100%	\$ 0.2070
Moore County	\$ 2,245,716,845	89.76%	\$ 0.0080
Moore County Hospital District	\$ 2,449,057,095	89.76%	\$ -
Palo Duro River Authority	\$ 2,879,874,810	100%	\$ -
City of Cactus	\$ 237,778,029	100%	\$ 0.2890

Source: The Municipal Advisory Council of Texas

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TABLE 11 - ESTIMATED OVERLAPPING DEBT⁽¹⁾

Taxing Jurisdiction	As of	Total Debt	Estimated % Overlapping	Overlapping Debt
City of Dumas	1/31/20	\$ 20,235,000	100%	\$ 20,235,000
Moore County	1/31/20	\$ 690,000	89.76%	\$ 619,344
Moore County Hospital District	1/31/20	\$ -	89.76%	\$ -
City of Cactus	1/31/20	\$ -	100%	\$ -
Palo Duro River Authority	1/31/20	\$ -	100%	\$ -
Estimated Overlapping Debt				
The District ⁽²⁾	1/31/20	\$ 82,355,000		\$ 82,355,000
				<u>\$ 103,209,344</u>

Total and Overlapping Debt as a % of 2019 Certified Taxable Assessed Valuation 5.50%

Total and Overlapping Debt as Per Capita (20,399) \$ 5,059.53

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bonds.

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES

<u>Governmental Subdivision</u>	<u>Date Authorized</u>
City of Dumas	None
Moore County	None
City of Cactus	None
Moore County Hospital District	None
Palo Duro River Authority	None

Source: The Municipal Advisory Council of Texas

[The remainder of this page intentionally left blank.]

TABLE 13 - PRINCIPAL TAX PAYERS 2019-2020 ⁽¹⁾

Tax Payer Name	Property Type	2019 Taxable AV	% of 2019 Freeze Adjusted
			Net Taxable Valuation
Diamond Shamrock Refining LP	Refinery	296,324,830	16.29%
JBS USA LLC (Swift)	Meat Packing Plant	116,561,440	6.41%
Valero Marketing & Supply Co.	Oil & Gas Pipeline	104,817,220	5.76%
Scout Energy Management	Energy	64,127,410	3.53%
Faria Land TX GP	Dairy	49,586,760	2.73%
Eagle Rock Field Services	Pipeline	41,908,130	2.30%
BNSF Railway	Railroad	32,361,490	1.78%
Pantera Energy	Energy	31,164,680	1.71%
Southwestern Public Service Co.	Electrical Utility	26,494,290	1.46%
Continental Carbon Company	Manufacturer	19,187,530	1.05%
Total		782,533,780	43.02% ⁽¹⁾

⁽¹⁾ Moore County Appraisal District

⁽²⁾ As shown in the table above, the total combined top ten taxpayers in the District currently account for over 43% of the District's tax base. In addition, the top taxpayer in the District currently accounts for over 16% of the District's tax base, thereby creating a concentration risk for the District. Any adverse development related to Diamond Shamrock Refining LP or its subsidiaries ("Diamond Shamrock Refining") affecting its ability to continue to conduct business at its location within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT." In addition, a portion of the District's assessed valuation is comprised of industries related to oil and gas, which are subject to fluctuation in terms of market valuation and availability. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" and "THE BONDS – Bondholders' Remedies" herein.

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TABLE 14 - CLASSIFICATION OF ASSESSED VALUATION

Category	2019/20 ^(a)	2018/19 ^(a)	2017/18 ^{(a) (b)}	2016/17 ^{(a) (b)}	2015/16 ^{(a) (b)}
Real, Residential, Single-Family	\$ 553,105,063	\$ 537,787,141	\$ 500,641,300	\$ 458,448,708	\$ 453,062,820
Real, Multi-Family	33,349,570	33,308,380	30,103,560	29,556,890	29,452,180
Real, Vacant Lots/Tracts	11,291,762	10,620,990	10,890,925	9,616,160	9,829,430
Real, Acreage (Land Only)	245,492,098	98,564,717	252,153,403	251,162,982	251,748,545
Real, Farm & Ranch Improvements	50,350,244	7,881,992	39,605,027	41,106,915	40,806,736
Real, Commercial	144,874,895	139,523,631	132,710,310	124,885,992	119,403,532
Real, Industrial	553,982,320	447,615,570	539,512,310	452,607,330	552,754,160
Real, Minerals Oil and Gas/Oil & Gas	144,934,980	152,191,470	145,099,850	131,187,310	288,226,650
Real and Tangible, Personal Utilities	166,346,280	165,587,060	165,807,100	173,897,840	185,489,150
Tangible Personal, Commercial	106,826,460	119,861,720	125,851,610	125,800,050	124,093,200
Tangible Personal, Industrial	390,440,640	463,283,220	358,264,650	407,779,590	384,313,150
Tangible Personal, Mobile Homes	23,073,320	21,356,220	18,892,790	17,045,255	16,535,990
Inventory, Residential / Special	2,844,930	3,267,410	3,022,620	2,758,080	3,236,690
Total Market Value	\$ 2,426,912,562	\$ 2,200,849,521	\$ 2,322,555,455	\$ 2,225,853,102	\$ 2,458,952,233
Less Exemptions:					
State Mandated Homestead Exemption	\$ 83,161,406	\$ 83,044,098	\$ 84,114,323	\$ 84,202,196	\$ 83,758,229
State, Over-65 and/or Disabled	12,219,021	10,645,870	10,747,605	10,483,294	10,238,732
Local, Homestead Exemption	22,647,043		21,821,163	20,935,537	20,595,648
Disabled and Deceased Veterans' Exemption	1,486,846	1,876,678	1,434,928	1,269,742	1,159,324
Homestead - Over 65 or Disabled Freeze Loss	22,647,043	47,787,264			
Freeport Property	60,253,483	81,578,747	90,137,696	85,319,156	65,100,547
Pollution Control	105,870,590	91,640,570	71,677,450	62,776,920	70,581,850
Agricultural Productivity Loss	173,802,576		191,785,719	178,347,746	165,583,339
Residential Homestead Cap	4,740,960	8,697,301	5,711,961	329,488	926,662
Solar/Wind/Other	-	161,338	-	-	-
Total Exemptions	\$ 486,828,968	\$ 325,431,866	\$ 477,430,845	\$ 443,664,079	\$ 417,944,331
Net Certified Taxable Value	\$ 1,940,083,594	\$ 1,875,417,655	\$ 1,845,124,610	\$ 1,782,189,023	\$ 2,041,007,902
Freeze Loss (with local optional deducted)	87,259,262	-	36,296,324	39,334,983	34,289,503
Freeze Adjusted Net Taxable Valuation	\$ 1,852,824,332	\$ 1,875,417,655	\$ 1,808,828,286	\$ 1,742,854,040	\$ 2,006,718,399

Note: Figures shown are Certified Valuations. Assessed Valuations may change during the year due to various supplements and protests. Valuations on a later date or in other tables may not match those shown in this table.

^(a) Texas Comptroller of Public Accounts

^(b) Moore County Appraisal District

TABLE 15 - PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

	2019	2018	2017	2016	2015
Real, Residential, Single-Family	24.44%	21.56%	20.60%	18.43%	18.43%
Real, Multi-Family	1.51%	1.30%	1.33%	1.20%	1.20%
Real, Vacant Lots/Tracts	0.48%	0.47%	0.43%	0.40%	0.40%
Real, Acreage (Land Only)	4.48%	10.86%	11.28%	10.24%	10.24%
Real, Farm & Ranch Improvements	0.36%	1.71%	1.85%	1.66%	1.66%
Real, Commercial	6.34%	5.71%	5.61%	4.86%	4.86%
Real, Industrial	20.34%	23.23%	20.33%	22.48%	22.48%
Real, Minerals Oil and Gas/Oil & Gas	6.92%	6.25%	5.89%	11.72%	22.48%
Real and Tangible, Personal Utilities	7.52%	7.14%	7.81%	7.54%	7.54%
Tangible Personal, Commercial	5.45%	5.42%	5.65%	5.05%	7.54%
Tangible Personal, Industrial	21.05%	15.43%	18.32%	15.63%	15.63%
Tangible Personal, Mobile Homes	0.97%	0.81%	0.77%	0.67%	0.67%
Inventory, Residential / Special	0.15%	0.13%	0.12%	0.13%	0.13%

Source: Moore County Appraisal District

TABLE 16 - GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES AND ANALYSIS OF CHANGES IN FUND BALANCES

Fiscal Year Ended	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Revenues:					
Local and Intermediate Sources	\$ 20,137,191	\$ 19,696,052	\$ 19,067,802	\$ 21,350,744	\$ 21,911,416
State Program Revenues	14,904,498	15,829,451	17,322,163	14,503,894	13,486,367
Federal Program Revenues	1,214,317	807,529	365,204	331,493	345,517
Total Revenues	\$ 36,256,006	\$ 36,333,032	\$ 36,755,169	\$ 36,186,131	\$ 35,743,300
Expenditures:					
Instruction	\$ 20,913,013	\$ 21,298,953	\$ 20,999,358	\$ 21,220,774	\$ 22,457,272
Instruction Resources & Media Services	451,541	442,214	423,234	439,280	543,479
Curriculum & Staff Development	1,267,576	1,207,141	1,232,674	1,310,672	621,291
Instructional Leadership	386,918	381,710	383,055	385,536	413,947
School Leadership	2,159,977	2,154,837	2,104,870	2,170,566	2,366,417
Guidance, Counseling & Evaluation Services	651,271	744,833	734,587	814,036	774,172
Social Work Services	-	-	-	-	-
Health Services	358,526	361,027	346,571	343,039	342,061
Student (Pupil) Transportation	893,927	898,287	1,058,890	623,270	1,243,149
Food Services	20,743	-	-	-	-
Cocurricular/Extracurricular Activities	1,849,869	1,687,163	1,686,695	1,591,057	1,613,022
General Administration	1,422,394	1,381,787	1,168,320	1,181,100	1,181,024
Plant Maintenance and Operations	4,251,366	4,145,523	3,878,881	4,132,033	3,981,572
Security and Monitoring Services	225,491	577,111	197,936	220,272	227,045
Data Processing Services	758,290	736,444	529,028	628,823	442,464
Capital Outlay	763,894	768,954	444,007	407,904	105,889
Other Intergovernmental Charges	489,139	487,316	516,678	521,108	502,919
Total Expenditures	\$ 36,863,935	\$ 37,273,300	\$ 35,704,784	\$ 35,989,470	\$ 36,815,723
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(607,929)	(940,268)	1,050,385	196,661	(1,072,423)
Other Resources/Extraordinary Item Resource	8,206	5,961	1,052	168,650	10,050
Other Uses/Extraordinary Item Uses	(409,259)	-	-	(1,218)	(2,823)
Other Resources	-	-	-	-	-
Total Other Financing Sources (Uses)	(1,008,982)	(934,307)	1,051,437	364,093	(1,065,196)
Extraordinary Item					
Extraordinary Item (Resource)					
Fund Balance - Beginning	21,603,098	22,537,405	21,485,968	21,121,875	22,187,071
Fund Balance - Ending	\$ 20,594,116	\$ 21,603,098	\$ 22,537,405	\$ 21,485,968	\$ 21,121,875

Note: The above information was taken from the District's Annual Financial Reports dated June 30, 2015-2019.

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TABLE 17 - CHANGE IN NET POSITION

Fiscal Year Ended	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Revenues					
Program Revenues:					
Charges for Services	\$ 504,000	\$ 416,000	\$ 476,000	\$ 460,000	\$ 513,000
Operating grants and contributions	8,479,000	12,354,000	6,772,000	7,414,000	6,538,000
General Revenues					
Maintenance and operation taxes	19,199,000	18,789,000	18,248,000	20,986,000	21,429,000
Debt service taxes	1,993,000	1,988,000	1,965,000	2,050,000	2,156,000
State aid-formula grants	12,901,000	14,022,000	15,379,000	12,634,000	11,585,000
Grants and contributions not restricted	1,270,000	783,000	325,000	296,000	303,000
Investment earnings	492,000	296,000	141,000	56,000	13,000
Miscellaneous	43,000	604,000	539,000	313,000	291,000
Total Revenues:	\$ 44,881,000	\$ 49,252,000	\$ 43,845,000	\$ 44,209,000	\$ 42,828,000
Expenses					
Instruction, curriculum, and media service	\$ 27,757,000	\$ 26,892,000	\$ 26,407,000	\$ 27,324,000	\$ 26,768,000
Instructional and school leadership	2,880,000	2,765,000	2,666,000	2,790,000	2,850,000
Student support services	2,318,000	2,406,000	2,404,000	2,548,000	2,344,000
Child nutrition	2,374,000	2,314,000	2,451,000	2,471,000	2,459,000
Cocurricular activities	2,615,000	2,043,000	2,041,000	2,082,000	1,940,000
General administration	1,529,000	1,430,000	1,225,000	1,259,000	1,197,000
Plant maintenance, security, and data pro	5,577,000	5,611,000	4,804,000	5,211,000	4,721,000
Community services	5,000	8,000	6,000	4,000	-
Debt services	536,000	603,000	653,000	870,000	1,051,000
Payments to fiscal agent	69,000	66,000	85,000	74,000	63,000
Other intergovernmental charges	420,000	422,000	431,000	447,000	503,000
Total Expenses	\$ 46,080,000	\$ 44,560,000	\$ 43,173,000	\$ 45,080,000	\$ 43,896,000
Increase (decrease) in net position before special items	(1,199,000)	4,692,000	672,000	(871,000)	(1,068,000)
Special items	(452,000)	-	-	-	-
Net Position at Beginning of Year	21,870,000	42,136,000	41,464,000	42,335,000	49,428,000
Prior Period Adjustment - Impelmentation of GASB 75 and GASB 68	-	(24,958,000)	-	-	(6,025,000)
	\$ 20,219,000	\$ 21,870,000	\$ 42,136,000	\$ 41,464,000	\$ 42,335,000

Note: The above information was taken from the District's Annual Financial Reports dated June 30, 2015-2019.

TABLE 18 - DEBT SERVICE COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

	Fiscal Year Ended June 30				
	2019	2018	2017	2016	2015
Total Revenues	\$ 2,053,281	\$ 2,047,390	\$ 1,999,631	\$ 2,081,945	\$ 2,166,977
Total Expenditures	1,993,250	1,999,900	2,013,536	2,283,653	2,332,051
Excess (Deficiency) Revenues Over (Under Expenditures)	\$ 60,031	\$ 47,490	\$ (13,905)	\$ (201,708)	\$ (165,074)
Other Resources	-	-	-	9,404,789	9,642,142
Other Uses	(43,281)	-	-	(9,266,754)	(9,472,021)
Fund Balance - Beginning of Year	1,720,266	1,672,776	1,686,681	1,750,354	1,745,307
Fund Balance - End of Year	\$ 1,737,016	\$ 1,720,266	\$ 1,672,776	\$ 1,686,681	\$ 1,750,354

Source: The above information was taken from the District's Annual Financial Reports dated June 30, 2015-2019.

APPENDIX B
GENERAL INFORMATION REGARDING THE DISTRICT
AND ITS ECONOMY

THE DISTRICT

General and Economic Information

Source: Texas Municipal Report for Dumas ISD and District records.

Enrollment Statistics

<u>Year Ending 6/30</u>	<u>Enrollment</u>
2008	4,045
2009	4,234
2010	4,378
2011	4,519
2012	4,589
2013	4,618
2014	4,539
2015	4,514
2016	4,504
2017	4,493
2018	4,276
2019	4,267
2020	4,310

District Staff

Teachers	320
Auxiliary Personnel	175
Teachers' Aides & Secretaries	122
Administrators	32
Other (Counselors, RNs, Librarians)	39

<u>Campus⁽¹⁾</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Year Built</u>	<u>Year of Addition/Renovation</u>
Cactus Elementary	PK-4	397	1962	Multiple, all before 1996
Morningside Elementary	PK-4	453	1954	Multiple, all before 2009
Hillcrest Elementary	PK-4	297	1966	Multiple, all before 1996
Sunset Elementary	PK-4	307	1955	Multiple, all before 1996
Green Acres Elementary	PK-4	404	1955	Multiple, all before 1996
Dumas Intermediate School	5-6	665	2009	None
Dumas Junior High	7-8	647	1933	Multiple, all before 1989
North Plains Opportunity Center	9-12	46	2003	None
Dumas High School	9-12	1,103	1949	Multiple, all before 2009

Unemployment Rates

	<u>December 2017</u>	<u>December 2018</u>	<u>December 2019</u>
Moore County	2.3%	2.5%	2.7%
State of Texas	4.1%	3.7%	3.4%
United States	4.1%	3.8%	3.5%

Source: United States Department of Labor.

APPENDIX C

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Dumas Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2019.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

DUMAS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
JUNE 30, 2019

DUMAS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019

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DUMAS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019

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CERTIFICATE OF BOARD

Dumas Independent School District
Name of School District

Moore
County

171901
Co.-Dist. Number

We, the undersigned, certify that the attached Annual Financial Reports of the above-named school district were reviewed and (check one) X approved disapproved for the year ended June 30, 2019, at a meeting of the Board of Trustees of such school district on the 14th day of October 2019.

Brandon Skipworth
Signature of Board Secretary

Patty Willis
Signature of Board President

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

COY BARTON, C.P.A.

CERTIFIED PUBLIC ACCOUNTANT

116 EAST SEVENTH
P.O. BOX 800 – TELEPHONE 806-935-4188
DUMAS, TEXAS 79029

MEMBER OF

THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

THE AICPA'S PRIVATE COMPANIES
PRACTICE SECTION

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Unmodified Opinion on Basic Financial Statements Accompanied By Required Supplementary Information and Other Supplementary Information Including the Supplementary Schedule of Expenditures of Federal Awards

To the Board of Trustees
Dumas Independent School District
P.O. Box 615
Dumas, Texas

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dumas Independent School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Administration's Responsibility for the Financial Statements

The Administration 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 administration, 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 Dumas Independent School District as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 72 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. The District has also included a Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas, Schedule of District's Contributions for Pensions – Teacher Retirement System of Texas, Schedule of the District's Proportionate Share of the Net OPEB Liability – Teacher Retirement System of Texas, and Schedule of District's Contributions for Other Post-Employment Benefits (OPEB) – Teacher Retirement System of Texas in the required supplementary information. 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 administration about the methods of preparing the information and comparing the information for consistency with administration'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 Dumas Independent School District's basic financial statements. The TEA Required Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The TEA Required Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of administration 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 TEA Required Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Trustees
Dumas Independent School District
Page 4

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of Dumas Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Coy Barton, CPA
Dumas, Texas

October 10, 2019

DUMAS INDEPENDENT SCHOOL DISTRICT
Introductory To Management's Discussion and Analysis
For the Year Ended June 30, 2019

To the Citizens and Taxpayers of Dumas Independent School District:

The Annual Financial Report of Dumas Independent School District for the year ended June 30, 2019, is hereby submitted. The District is responsible for the completeness and fairness of these financial statements.

The financial statements are presented in the following sections: Introductory, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information, Required TEA Schedules, and Reports on Internal Control, on Compliance and Other Matters, and Federal Awards.

This financial report is designed to provide the citizens and taxpayers of our District information concerning the financial condition of the District.

The state's school financial accountability rating system, known as the School Financial Integrity Rating System of Texas (FIRST), ensures that Texas public schools are held accountable for the quality of their financial management practices and that they improve those practices. The system is designed to encourage Texas public schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes. Dumas Independent School District received a "Passed" status report by having a District Score of 100 for the fiscal year end 2018.

Dumas Independent School District was awarded a "B" rating from the Texas Education Agency for the District's student academic performance in the 2018-2019 school year. In addition, seven of nine campuses met the TEA standard of a "C" performance rating or above. Declining student enrollment has brought both challenges and opportunities for the Board of Trustees and Administration during the year covered by these financial statements.

Because long range planning, for both program and facility improvement, is an important part of the District's operations, we know that the continued success of our students is safeguarded. Dumas Independent School District is financially strong and well positioned for a good future in public education.

Sincerely,

Monty Hysinger

Monty Hysinger
Superintendent

DUMAS INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administrators of Dumas Independent School District, discuss and analyze the District's financial performance for the year ended June 30, 2019. Please read it in conjunction with our transmittal letter on page 6, the Independent Auditor's Report on pages 2-5, and the District's Basic Financial Statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

The District's net position decreased by \$1.65 million compared to last year.

During the 2019 year, the District's expenses were \$1.65 million more than the \$44.88 million generated in taxes, charges for services, operating grants, and other revenues for governmental activities.

Total cost of all of the District's programs, after charges for services and operating grants, was \$37.10 million, which was a increase from last year of about \$5.31 million or 16.69%.

The General Fund ended the twelve month period with a fund balance of \$20.59 million which is less from last year's balance of \$21.60 million. This decrease was the result of total expenditures exceeding revenues by about \$1.01 million.

The resources available for appropriation were \$1.63 million less than the expenditures budgeted for in the General Fund.

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 14 and 15). 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 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining fiduciary statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

Dumas Independent School District
Management's Discussion and Analysis (continued)

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled Required TEA Schedules and Reports on Internal Control, on Compliance and Other Matters, and Federal Awards contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. 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 fiscal year, and the Statement of Activities includes all the revenues and expenses generated by the District's operations during the twelve month period. These apply the accrual basis of accounting, which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator 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 have the following activities:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 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 Every Student Succeeds 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 funds use the following accounting approach:

- 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.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. 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. All of the District's fiduciary activities are reported in the Statement of Net Position - Fiduciary Funds on page 20.

Dumas Independent School District
Management's Discussion and Analysis (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement No. 34 in prior years. We have presented both current and prior year data and discussed significant changes in accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$21.87 million to \$20.22 million. 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 \$(7.71) million at June 30, 2019, down \$2.11 million from last year.

Table I
Dumas Independent School District
NET POSITION
(in thousands)

	Governmental Activities 2019	Total 2019	Total 2018
Current and other assets	\$ 27,763	\$ 27,763	\$ 27,729
Capital assets	42,406	42,406	43,540
Total Assets	70,169	70,169	71,269
Deferred Outflows of Resources	10,184	10,184	4,238
Long-term liabilities	48,649	48,649	41,757
Other liabilities	4,764	4,764	4,039
Total Liabilities	53,413	53,413	45,796
Deferred Inflows of Resources	6,721	6,721	7,841
Net Position:			
Investment in capital assets	25,916	25,916	25,675
Restricted	2,014	2,014	1,793
Unrestricted	(7,711)	(7,711)	(5,598)
Total Net Position	\$ 20,219	\$ 20,219	\$ 21,870

Dumas Independent School District
Management's Discussion and Analysis (continued)

Table II
Dumas Independent School District
CHANGES IN NET POSITION
(in thousands)

	Governmental Activities 2019	Total 2019	Total 2018
Revenues:			
Program Revenues:			
Charges for services	\$ 504	\$ 504	\$ 416
Operating grants and contributions	8,479	8,479	12,354
General Revenues:			
Maintenance and operations taxes	19,199	19,199	18,789
Debt service taxes	1,993	1,993	1,988
State aid - formula grants	12,901	12,901	14,022
Grants and contributions not restricted	1,270	1,270	783
Investment earnings	492	492	296
Miscellaneous	43	43	604
Total Revenues	<u>44,881</u>	<u>44,881</u>	<u>49,252</u>
Expenses:			
Instruction, curriculum, and media services	27,757	27,757	26,892
Instructional and school leadership	2,880	2,880	2,765
Student support services	2,318	2,318	2,406
Child nutrition	2,374	2,374	2,314
Cocurricular activities	2,615	2,615	2,043
General administration	1,529	1,529	1,430
Plant maintenance, security, and data processing	5,577	5,577	5,611
Community services	5	5	8
Debt services	536	536	603
Payments to fiscal agent	69	69	66
Other intergovernmental charges	420	420	422
Total Expenses	<u>46,080</u>	<u>46,080</u>	<u>44,560</u>
Increase (decrease) in net position before special items	(1,199)	(1,199)	4,692
Special items	(452)	(452)	-
Net Position at Beginning of Year	21,870	21,870	42,136
Prior Period Adjustment - Implementation of GASB 75	-	-	(24,958)
Net Position at End of Year	<u>\$ 20,219</u>	<u>\$ 20,219</u>	<u>\$ 21,870</u>

Dumas Independent School District
Management's Discussion and Analysis (continued)

The District took action this year to compensate for some increase in cost.

- The District's property tax rate decreased slightly compared to the prior year and tax revenue increased approximately \$0.38 million. Property tax revenues are budgeted to decrease by \$0.85 million next year.

The cost of all governmental activities this year was \$46.08 million compared to \$44.56 million last year. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$37.10 million because some of the costs were paid by those who directly benefited from the programs (\$0.50 million), and by other governments and organizations that subsidized certain programs with grants and contributions (\$8.48 million), or by state formula grants (\$12.90 million).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$22.64 million, which is less than last year's total of \$23.43 million. The fund balance in the District's General Fund decreased by \$1.01 million.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in June 2018). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them, to programs with resource needs.

The District's General Fund balance of \$20.59 million reported on page 16 differs from the General Fund's budgetary fund balance of \$19.83 million reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund on page 72. This is principally due to unspent salary, supply, and facilities maintenance appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had \$42.41 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Dumas Independent School District
Management's Discussion and Analysis (continued)

This year's major additions included (in thousands):

Construction in progress paid for with local funds	\$ 6
Various building improvements paid for with local funds	27
Instructional, technology, and transportation equipment paid for with local funds	<u>1,220</u>
Total	<u>\$ 1,253</u>

The District's fiscal year 2020 capital budget calls for \$1.35 million in expenditures. More detailed information about the District's capital assets is presented in Note III.G. to the financial statements.

Debt

At year-end, the District had \$16.49 million in bonds and notes outstanding which was \$1.38 million less than the \$17.87 million last year. More detailed information about the District's long-term liabilities is presented in Note III.J. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2020 budget and tax rates. Three of those factors are the impact of House Bill 3, increase state share of funding of public schools, and property tax compression. We experienced continued growth in special populations such as economically disadvantaged, career/tech, and special education in 2019. With that trend in mind, the Board of Trustees adopted a budget for 2020 that made the assumption that student population would continue to decrease from the 2019 level.

Amounts available for appropriation in the General Fund budget are \$39.33 million, an increase from last year's budget of \$36.52 million. Budgeted expenditures are expected to be up by about \$1.42 million compared to 2019, and we expect a slight budget surplus for 2020.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances, and to 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 Dumas Independent School District, P. O. Box 615, Dumas, Texas, 79029.

BASIC FINANCIAL STATEMENTS

DUMAS INDEPENDENT SCHOOL DISTRICT
Statement of Net Position
June 30, 2019

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 22,992,632
1220 Property Taxes - Delinquent	691,272
1230 Allowance for Uncollectible Taxes	(103,691)
1240 Due from Other Governments	3,917,519
1267 Due from Fiduciary Funds	1,529
1290 Other Receivables, Net	71,329
1300 Inventories	97,950
1410 Prepayments	93,957
Capital Assets:	
1510 Land	986,825
1520 Buildings and Improvements, Net	38,628,848
1530 Furniture and Equipment, Net	2,784,425
1580 Construction in Progress	6,107
1000 Total Assets	70,168,702
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,321,414
1705 Deferred Outflow Related to TRS Pension	6,709,995
1706 Deferred Outflow Related to TRS OPEB	2,152,853
1700 Total Deferred Outflows of Resources	10,184,262
LIABILITIES	
2110 Accounts Payable	890,446
2140 Interest Payable	243,229
2150 Payroll Deductions and Withholdings	5,818
2160 Accrued Wages Payable	3,415,985
2200 Accrued Expenses	209,125
Noncurrent Liabilities:	
2501 Due Within One Year	1,430,000
2502 Due in More Than One Year	16,532,092
2540 Net Pension Liability (District's Share)	13,661,350
2545 Net OPEB Liability (District's Share)	17,025,193
2000 Total Liabilities	53,413,238
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	1,337,440
2606 Deferred Inflow Related to TRS OPEB	5,383,777
2600 Total Deferred Inflows of Resources	6,721,217
NET POSITION	
3200 Net Investment in Capital Assets	25,916,205
3820 Restricted for Federal and State Programs	275,485
3850 Restricted for Debt Service	1,737,016
3890 Restricted for Other Purposes	952
3900 Unrestricted	(7,711,149)
3000 Total Net Position	\$ 20,218,509

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Statement of Activities
For the Year Ended June 30, 2019

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating	Primary Gov.
	Expenses	Services	Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 25,727,436	\$ 79,225	\$ 4,361,719	\$ (21,286,492)
12 Instructional Resources and Media Services	517,868	-	40,966	(476,902)
13 Curriculum and Instructional Staff Development	1,511,207	7,650	253,436	(1,250,121)
21 Instructional Leadership	495,073	-	112,359	(382,714)
23 School Leadership	2,385,099	-	215,726	(2,169,373)
31 Guidance, Counseling and Evaluation Services	1,048,713	-	399,065	(649,648)
32 Social Work Services	16,298	-	16,298	-
33 Health Services	387,175	-	33,902	(353,273)
34 Student (Pupil) Transportation	865,628	-	294,640	(570,988)
35 Food Services	2,374,411	320,075	2,260,327	205,991
36 Extracurricular Activities	2,614,843	91,668	82,403	(2,440,772)
41 General Administration	1,528,561	-	144,763	(1,383,798)
51 Facilities Maintenance and Operations	4,478,649	5,477	212,054	(4,261,118)
52 Security and Monitoring Services	296,977	-	12,217	(284,760)
53 Data Processing Services	801,753	-	34,457	(767,296)
61 Community Services	4,653	-	4,653	-
72 Debt Service - Interest on Long-Term Debt	366,281	-	-	(366,281)
73 Debt Service - Bond Issuance Cost and Fees	170,109	-	-	(170,109)
93 Payments related to Shared Services Arrangements	69,452	-	-	(69,452)
99 Other Intergovernmental Charges	419,687	-	-	(419,687)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 46,079,873	\$ 504,095	\$ 8,478,985	(37,096,793)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	19,198,592
DT	Property Taxes, Levied for Debt Service	1,992,792
SF	State Aid - Formula Grants	12,900,893
GC	Grants and Contributions not Restricted	1,269,739
IE	Investment Earnings	491,952
MI	Miscellaneous Local and Intermediate Revenue	43,285
S2	Special Item - (Use)	(452,540)
TR	Total General Revenues & Special Items	35,444,713
CN	Change in Net Position	(1,652,080)
NB	Net Position - Beginning	21,870,589
NE	Net Position--Ending	\$ 20,218,509

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2019

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 20,780,061	\$ 2,212,571	\$ 22,992,632
1220 Property Taxes - Delinquent	644,779	46,493	691,272
1230 Allowance for Uncollectible Taxes	(96,717)	(6,974)	(103,691)
1240 Due from Other Governments	3,440,646	476,873	3,917,519
1260 Due from Other Funds	96,009	8	96,017
1290 Other Receivables	16,957	54,372	71,329
1300 Inventories	68,155	29,795	97,950
1410 Prepayments	93,957	-	93,957
1000 Total Assets	<u>\$ 25,043,847</u>	<u>\$ 2,813,138</u>	<u>\$ 27,856,985</u>
LIABILITIES			
2110 Accounts Payable	\$ 888,384	\$ 2,062	\$ 890,446
2150 Payroll Deductions and Withholdings Payable	5,818	-	5,818
2160 Accrued Wages Payable	3,007,459	408,526	3,415,985
2170 Due to Other Funds	8	94,480	94,488
2200 Accrued Expenditures	-	209,125	209,125
2300 Unearned Revenue	-	16,178	16,178
2000 Total Liabilities	<u>3,901,669</u>	<u>730,371</u>	<u>4,632,040</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	548,062	39,519	587,581
2600 Total Deferred Inflows of Resources	<u>548,062</u>	<u>39,519</u>	<u>587,581</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	68,155	29,795	97,950
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	275,485	275,485
3480 Retirement of Long-Term Debt	-	1,737,016	1,737,016
3490 Other Restricted Fund Balance	-	952	952
Committed Fund Balance:			
3510 Construction	4,000,000	-	4,000,000
3530 Capital Expenditures for Equipment	2,300,000	-	2,300,000
Assigned Fund Balance:			
3570 Capital Expenditures for Equipment	4,500,000	-	4,500,000
3600 Unassigned Fund Balance	9,725,961	-	9,725,961
3000 Total Fund Balances	<u>20,594,116</u>	<u>2,043,248</u>	<u>22,637,364</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 25,043,847</u>	<u>\$ 2,813,138</u>	<u>\$ 27,856,985</u>

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2019

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 22,637,364
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$81,327,748 and the accumulated depreciation was \$37,787,212. 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.	25,675,536
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 capital outlays and debt principal payments is to increase net position.	2,628,374
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB Statement No. 68. The net position related to TRS included a deferred resource outflow in the amount of \$6,709,995, a deferred resource inflow in the amount of \$1,337,440, and a net pension liability in the amount of \$13,661,350. This resulted in a decrease in net position.	(8,288,795)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB Statement No. 75. The net position related to TRS included a deferred resource outflow in the amount of \$2,152,853, a deferred resource inflow in the amount of \$5,383,777, and a net OPEB liability in the amount of \$17,025,193. This resulted in a decrease in net position.	(20,256,117)
5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(2,387,705)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue 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.	209,852
19 Net Position of Governmental Activities	<u>\$ 20,218,509</u>

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 20,137,191	\$ 2,354,877	\$ 22,492,068
5800 State Program Revenues	14,904,498	682,674	15,587,172
5900 Federal Program Revenues	1,214,317	4,219,534	5,433,851
5020 Total Revenues	36,256,006	7,257,085	43,513,091
EXPENDITURES:			
Current:			
0011 Instruction	20,913,013	2,124,757	23,037,770
0012 Instructional Resources and Media Services	451,541	-	451,541
0013 Curriculum and Instructional Staff Development	1,267,576	145,172	1,412,748
0021 Instructional Leadership	386,918	77,673	464,591
0023 School Leadership	2,159,977	-	2,159,977
0031 Guidance, Counseling and Evaluation Services	651,271	337,392	988,663
0032 Social Work Services	-	16,298	16,298
0033 Health Services	358,526	-	358,526
0034 Student (Pupil) Transportation	893,927	-	893,927
0035 Food Services	20,743	2,297,049	2,317,792
0036 Extracurricular Activities	1,849,869	-	1,849,869
0041 General Administration	1,422,394	-	1,422,394
0051 Facilities Maintenance and Operations	4,251,366	-	4,251,366
0052 Security and Monitoring Services	225,491	-	225,491
0053 Data Processing Services	758,290	-	758,290
0061 Community Services	-	4,653	4,653
Debt Service:			
0071 Principal on Long-Term Debt	-	1,375,000	1,375,000
0072 Interest on Long-Term Debt	-	617,450	617,450
0073 Bond Issuance Cost and Fees	-	800	800
Capital Outlay:			
0081 Facilities Acquisition and Construction	763,894	-	763,894
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	69,452	-	69,452
0099 Other Intergovernmental Charges	419,687	-	419,687
6030 Total Expenditures	36,863,935	6,996,244	43,860,179
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(607,929)	260,841	(347,088)
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	8,206	-	8,206
8949 Other (Uses)	(409,259)	(43,281)	(452,540)
7080 Total Other Financing Sources (Uses)	(401,053)	(43,281)	(444,334)
1200 Net Change in Fund Balances	(1,008,982)	217,560	(791,422)
0100 Fund Balance - July 1 (Beginning)	21,603,098	1,825,688	23,428,786
3000 Fund Balance - June 30 (Ending)	\$ 20,594,116	\$ 2,043,248	\$ 22,637,364

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2019

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (791,422)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.	2,628,374
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(2,387,705)
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, 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.	152,746
GASB Statement No. 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 \$683,496. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in net position totaling \$702,279. 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 \$943,793. The net result is a decrease in the change in net position.	(962,576)
GASB Statement No. 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 \$192,661. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$197,300. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$286,858. The net result is a decrease in the change in net position.	(291,497)
Change in Net Position of Governmental Activities	<u><u>\$ (1,652,080)</u></u>

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Statement of Net Position
Fiduciary Funds
June 30, 2019

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 181,163
Total Assets	<u>\$ 181,163</u>
LIABILITIES	
Due to Other Funds	\$ 1,529
Due to Student Groups	179,634
Total Liabilities	<u>\$ 181,163</u>

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dumas Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 56**, 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.

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 the Governmental Accounting Standards Board (“GASB”) in its Statement No. 14, “*The Financial Reporting Entity*.” There are no component units included within the reporting entity.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

B. Basis of Presentation, Basis of Accounting (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specific project periods. The Food Service Fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Debt Service Fund** - This fund accounts for financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term debt of governmental activities.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

B. Basis of Presentation, Basis of Accounting (continued)

Fiduciary Funds:

1. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's agency funds are the Activity or Class Funds.

C. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, the revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Grant funds are considered 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.

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

C. Measurement Focus, Basis of Accounting (continued)

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

D. Fund Balance Classification

Non-spendable: This classification includes amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of bonds and are restricted by State statute. Capital projects are restricted by State statute and are legally segregated for funding of capital improvements.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Assigned: This classification includes amounts that do not meet the criteria to be classified as Restricted or Committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the superintendent may assign for specific purposes.

Unassigned: This classification includes the residual fund balance for the General Fund.

The District would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

E. Financial Statement Amounts

1. Deposits and Investments

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

E. Financial Statement Amounts (continued)

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State Treasurer's Investment Pools.

Investments for the District are reported at fair value. The State Treasurer's Investment Pools are operated in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

2. Property Taxes

Property taxes are levied by October 1st on assessed value listed as of the prior January 1st for all real and business personal property 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 1st of the year following the year in which imposed. On January 31st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. As of June 30, 2019, the amount deemed uncollectible by this estimate was \$103,691. 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.

3. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Certain payments to vendors reflect the cost applicable to future periods and are recorded as prepaid items. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, transportation items, and food supplies. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market value supplied by the Texas Health and Human Services Commission. The school supplies inventories, at June 30, 2019, were \$68,155 for the General Fund. The food supplies inventories including commodities, at June 30, 2019, were \$29,795 for the Child Nutrition Fund.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

E. Financial Statement Amounts (continued)

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings and improvements	25-50
Vehicles	7-10
Office equipment and furniture	5-20
Computer equipment	3-5

5. Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide Statement of Net Position.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

E. Financial Statement Amounts (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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 premiums or discounts.

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

7. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of administration's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

8. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The Texas Education Agency requires the display of 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. Contingent Liability

Upon leaving employment, the District provides payment for accrued unused state and local leave to employees who have twenty or more years of service with the District as follows:

The first thirty days of unused leave multiplied by 75% of the employee's daily rate of pay plus any days in excess of thirty multiplied by 25% of the employee's daily rate plus the number of years of continuous service in Dumas Independent School District multiplied by 50% of the employee's daily rate of pay not to exceed \$5,000 for 20 to 24 years of service, \$7,500 for 25 to 29 years of service, and \$10,000 for over 29 years of service.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

E. Financial Statement Amounts (continued)

The total for these payments for employees who were eligible at June 30, 2019, was \$455,252 and is reported as a contingent liability since it is contingent on their separation from the District.

10. Group Self-Insurance Pool

The District began to participate in a group self-insurance pool with TRS Active Care on September 1, 2006. The District has no risks or liabilities associated with the health insurance plan.

11. 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.

12. New Financial Accounting Standards

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This Statement establishes a guideline for identifying fiduciary activities and determining if these activities should be reported in the governmental funds' financial statements as a Special Revenue Fund. The objective of this Statement is to make fiduciary activity reporting more consistent and comparable. This Statement is effective for reporting periods beginning after December 15, 2018. Administration is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

The GASB issued Statement No. 87, *Leases*, in June 2017. 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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

E. Financial Statement Amounts (continued)

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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Administration is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's resources flows. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Administration is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

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

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

1. Prior to June 20th, the District prepares a budget for the next succeeding fiscal year beginning July 1st. 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.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

A. Budgetary Data (continued)

3. Prior to July 1st, 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 significant:

General Fund

Function 11 - Salaries and transportation allotment	\$	915,816
Function 13 - Transportation reallocation allotment and salaries		205,687
Function 36 - Transportation allotment		542,245
Function 52 - Security and monitoring services		127,396
Function 53 - Data processing services		193,977
Function 81 - Facility construction		836,540

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. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	June 30, 2019
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 61,952
Nonappropriated Budget Funds	-
All Special Revenue Funds	<u><u>\$ 61,952</u></u>

B. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not Applicable

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

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.

During the year, the District's deposits were covered by depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. At June 30, 2019, the District's deposits were covered with depository insurance in the amount of \$270,261 and collateralized with securities held by the pledging financial institution's trust department or agent in the District's name in the amount of \$9,880,779.

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 limiting all deposits denominated in a foreign currency. The District was not exposed to any foreign currency risk at June 30, 2019.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

A. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2019, the following are the District's cash and cash equivalents with respective maturities and credit rating:

	Fair Value	Percent	Maturity in Less than 1 Year	Maturity in 1-10 Years	Maturity in Over 10 Years	Credit Rating
<u>Type of Deposit</u>						
FDIC Insured Accounts	\$ 11,152,497	100%	\$ 11,152,497	\$ -	\$ -	N/A
Investment Pools:						
Lone Star	5,619,581	100%	5,619,581	-	-	AAAm
TexPool	2,656,038	100%	2,656,038	-	-	AAAm
TexStar	3,564,516	100%	3,564,516	-	-	AAAm
Total Investment Pools:	<u>11,840,135</u>	<u>100%</u>	<u>11,840,135</u>	<u>-</u>	<u>-</u>	
Total Cash and Cash Equivalents	<u>\$ 22,992,632</u>	<u>100%</u>	<u>\$ 22,992,632</u>	<u>\$ -</u>	<u>\$ -</u>	

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and Texas Government Code, Chapter 2256. The Trust Company has specifically identified the authorized investments consistent with the Investment Act. The District owns an undivided beneficial interest in the assets of TexPool in an amount proportional to the total amount of the District's accounts relative to the total amount of all the participants' accounts in TexPool, computed on a daily basis.

Lone Star Investment Pool is a public funds investment pool created under the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. The Lone Star Investment Pool includes the Government Overnight Fund, in which the District participates, whose investments are confined to securities having effective maturities at various times within two years from the date of purchase of the securities. The average dollar-weighted maturity of the fund does not exceed 120 days. The Lone Star Investment Pool is authorized to invest in obligations of the United States; any obligations backed by the full faith and credit of the United States; fully collateralized repurchase agreements having a defined termination date secured by obligations of the United States; and no-load money market mutual funds regulated by the SEC with certain exceptions as defined in the Lone Star Investment Pool Information Statement.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

A. Cash, Cash Equivalents, and Investments (continued)

Texas Short Term Asset Reserve Fund (TexStar) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. J. P. Morgan Investor Services, Inc. provides custodial, transfer agency, fund accounting, and depository services. TexStar Cash Reserve Fund authorized investments are government securities unconditionally guaranteed or backed by the full faith and credit of the United States with no collateralized mortgage obligations greater than ten years; repurchase agreements and reverse repurchase agreements with defined termination date and fully collateralized; and money market mutual funds with a dollar-weighted average maturity of 90 days or fewer and a dollar-weighted average maturity of 60 days or fewer.

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires 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, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas 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 rated 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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

A. Cash, Cash Equivalents, and Investments (continued)

procedures related to investment practices as provided by the Act. Dumas Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Dumas Independent School District are specified below:

Credit Risk

To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments that comply with the Public Funds Investment Act and all federal, state, and local statutes, rules, or regulations. As of June 30, 2019, the District had no investments.

Custodial Credit Risk for Investments

To limit the risk that, in the event of the failure of the counterparty to a transaction, the District 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. The District had no investments at June 30, 2019.

Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of the District's investment in a single issuer, the District's investment policy emphasizes safety of principal and liquidity. The policy requires prudence with respect to single investments. During the year, the District invested in Texpool, Lone Star Investment Pool, and TexStar under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and Public Funds Investments Act, Chapter 2256, Texas Government Code. The District was not exposed to any concentration of credit risk for the year ended June 30, 2019.

Interest Rate Risk

To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that internally created pool fund groups have a maximum dollar weighted maturity of 180 days and other investments shall not exceed one year from time of purchase unless specifically authorized by the Board for a given investment. The District was not exposed to any investment rate risk at June 30, 2019.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

A. Cash, Cash Equivalents, and Investments (continued)

Foreign Currency Risk for Investments

The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign investments. The District was not exposed to any foreign currency risk for investments at June 30, 2019.

Other Credit Risk Exposure

The District had no other known credit risk exposure at June 30, 2019.

Defaults and Recovery of Prior Period Losses

The District had no defaults or prior period losses for the year ended June 30, 2019.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of June 30, 2019, Dumas Independent School District had no investments subject to the fair value measurement.

B. Property Taxes

Property taxes are levied by October 1st on the assessed value listed as of the prior January 1st 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 1st of the year following the year in which imposed. On January 31st 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 a 60-day period after the close of the school fiscal year.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

B. Property Taxes (continued)

The assessed value of the property tax roll on August 1, 2018, upon which the levy for the 2018-2019 fiscal year was based, was \$2,304,943,424. The roll was subsequently decreased to a year-end assessed value of \$1,858,340,725.

The tax rates assessed for the year ended June 30, 2019, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.1079 per \$100 valuation, respectively, for a total of \$1.1479 per \$100 valuation.

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 for the Texas Legislature.

D. Interfund Balances and Transfers

Interfund balances at June 30, 2019, consisted of the following amounts:

Due to General Fund from:

Nonmajor Governmental Funds	\$ 94,480
Trust and Agency Fund	1,529
Total Due to General Fund	<u>96,009</u>

Due to Nonmajor Governmental Funds from:

General Fund	8
Total Due to Nonmajor Governmental Funds	<u>8</u>
Total Due from Other Funds	<u><u>\$ 96,017</u></u>

The purpose of these interfund balances is to allow for ease of funding the daily operations of the District. These interfund balances are expected to be repaid in the next fiscal year.

There were no interfund transfers for the year ended June 30, 2019.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

E. Disaggregation of Receivables and Payables

Receivables at June 30, 2019, were as follows:

	Property Taxes (Net)	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 548,062	\$ 3,440,646	\$ 96,009	\$ 16,957	\$ 4,101,674
Nonmajor Governmental Activities	39,519	476,873	8	54,372	570,772
Total - Governmental Activities	<u>\$ 587,581</u>	<u>\$ 3,917,519</u>	<u>\$ 96,017</u>	<u>\$ 71,329</u>	<u>\$ 4,672,446</u>

Amounts not scheduled for collection
during the subsequent year

<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-------------	-------------	-------------	-------------	-------------

	General Fund	Nonmajor Governmental Funds	Total
Property Taxes (Net):			
Delinquent taxes receivable (ad valorem)	\$ 644,779	\$ 46,493	\$ 691,272
Less allowance for uncollectible taxes	<u>(96,717)</u>	<u>(6,974)</u>	<u>(103,691)</u>
Total - Property Taxes (Net)	<u>\$ 548,062</u>	<u>\$ 39,519</u>	<u>\$ 587,581</u>

The allowance for uncollectible taxes is calculated by the District. The allowance is 15% of the delinquent taxes receivable, which appears reasonable.

	General Fund	Nonmajor Governmental Fund	Total
Receivable - Other Governments:			
Receivable - State	<u>\$ 3,440,646</u>	<u>\$ 476,873</u>	<u>\$ 3,917,519</u>
Total Receivable - Other Governments	<u>\$ 3,440,646</u>	<u>\$ 476,873</u>	<u>\$ 3,917,519</u>

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

E. Disaggregation of Receivables and Payables (continued)

The other receivables consist of the following:

	General Fund	Nonmajor Governmental Funds	Total
Other Receivables:			
Due from miscellaneous vendors	\$ 16,957	\$ 54,372	\$ 71,329
Total - Other Receivables	<u>\$ 16,957</u>	<u>\$ 54,372</u>	<u>\$ 71,329</u>

All receivables (net) are expected to be collected within one year.

Aged receivables at June 30, 2019, were as follows:

	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total Aged Receivables
Aged Receivables:					
Property taxes (net)	\$ -	\$ -	\$ -	\$ 587,581	\$ 587,581
Other governments	3,917,519	-	-	-	3,917,519
Due from other funds	-	-	-	96,017	96,017
Other receivables	<u>71,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,329</u>
Total Aged Receivables	<u>\$ 3,988,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 683,598</u>	<u>\$ 4,672,446</u>

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

E. Disaggregation of Receivables and Payables (continued)

Payables at June 30, 2019, were as follows:

	Accounts Payable	Loans, Leases, Bonds, and Other Liabilities Payable- Current Year	Salaries and Benefits	Due To Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	\$ 888,384	\$ -	\$ 3,013,277	\$ 8	\$ -	\$ -	\$ 3,901,669
Nonmajor Governmental Funds	2,062	-	408,526	94,480	-	225,303	730,371
Total - Governmental Activities	<u>\$ 890,446</u>	<u>\$ -</u>	<u>\$ 3,421,803</u>	<u>\$ 94,488</u>	<u>\$ -</u>	<u>\$ 225,303</u>	<u>\$ 4,632,040</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

F. Deferred Outflows of Resources

In addition to assets, the Statement of Net 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(s) and, therefore, will *not* be recognized as an outflow of resources (expenditure/expense) until that time. The District has three types of this item, which arises only under a full accrual basis of accounting, that qualifies for reporting in this category. Accordingly, these items, *Deferred Charge for Refunding Bonds*, *Deferred Outflows Related to TRS Pension*, and *Deferred Outflows Related to TRS OPEB* are reported only in the Government-wide Statement of Net Position. The Government-wide Statement of Net Position reports the District's share of deferred charges for refunding bonds, the District's share of the unrecognized plan deferred outflows of resources which TRS uses in calculating the end net pension liability, as well as the District's contributions to TRS in the current fiscal year, and the District's share of the unrecognized OPEB deferred outflows of resources which TRS uses in calculating the end net OPEB liability. These amounts are deferred and recognized as an outflow of resources in the period that the amounts become available.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

G. Capital Asset Activity

Capital asset activity for the District for the year ended June 30, 2019, was as follows:

	Primary Government				
	Beginning Balance	Additions	Retirements	Other Reclassifications	Ending Balance
Governmental Activities:					
Land and improvements	\$ 986,825	\$ -	\$ -	\$ -	\$ 986,825
Total Assets Not Being Depreciated	986,825	-	-	-	986,825
Buildings and improvements	74,292,614	27,135	663,681	50,168	73,706,236
Furniture and equipment	1,667,385	839,112	235,644	307,128	2,577,981
Capital leases	-	-	-	-	-
Vehicles	4,023,628	381,020	155,690	-	4,248,958
Construction in progress	357,296	6,107	-	(357,296)	6,107
Total Assets Being Depreciated	80,340,923	1,253,374	1,055,015	-	80,539,282
Totals at Historical Cost	81,327,748	1,253,374	1,055,015	-	81,526,107
Less Accumulated Depreciation for:					
Buildings and improvements	33,888,842	1,852,227	663,681	-	35,077,388
Furniture and equipment	1,167,853	250,661	235,644	-	1,182,870
Capital leases	-	-	-	-	-
Vehicles	2,730,517	284,817	155,690	-	2,859,644
Total Accumulated Depreciation	37,787,212	2,387,705	1,055,015	-	39,119,902
Governmental Activities					
Capital Assets, Net	<u>\$43,540,536</u>	<u>\$ (1,134,331)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$42,406,205</u>

Construction in progress consists of one project. This project is as follows:

Projects	Total Estimated Project Costs	Construction in Progress at 6-30-19	Percent Complete at 6-30-19	Estimated Completion Date
1. Tennis Court Resurfacing	\$ 72,400	\$ 6,107	8.44%	9-30-19

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

G. Capital Asset Activity (continued)

Depreciation expense was charged to governmental functions as follows:

Data Control		
Codes	Expense	Amount
11	Instruction	\$ 1,022,987
12	Instructional resources and media services	33,344
13	Curriculum development and instructional staff development	4,923
21	Instructional leadership	288
23	School leadership	34,249
31	Guidance, counseling and evaluation services	6,779
33	Health services	2,564
34	Student (pupil) transportation	209,701
35	Food services	77,714
36	Extracurricular activities	729,811
41	General administration	19,690
51	Facilities maintenance and operations	146,514
52	Security and monitoring services	82,162
53	Data processing services	16,979
	Total Depreciation Expense	<u>\$ 2,387,705</u>

H. Short-Term Debt Payable

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The District had no short-term loans payable at June 30, 2019.

I. Deferred Inflows of Resources

In addition to liabilities, both the Governmental Funds Balance Sheet and the Statement of Net 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(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category. One item, which arises only under a modified accrual basis of accounting, is *unavailable revenue*. Unavailable revenue is reported only in the Governmental Funds Balance Sheet. The governmental

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

I. Deferred Inflows of Resources (continued)

funds report unavailable revenue from property taxes. The next items are *Deferred Inflow Related to TRS Pension* and *Deferred Inflow Related to TRS OPEB*, which arises only under a full accrual basis of accounting, and are reported only in the Government-wide Statement of Net Position. The Government-wide Statement of Net Position reports the District's share of unrecognized plan deferred inflows of resources, which TRS uses in calculating the ending net pension liability and net other post-employment benefit liability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Bonds and Long-Term Debt Payable

Long-term debt includes long-term bonds. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

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

Governmental Activities Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 7/1/18	Issued/ Other	Retired/ Other	Amounts Outstanding 6/30/19
General Obligation Bonds-							
Series 2008 Unlimited Tax School Building Bonds	3.62% to 5.0%	\$ 25,000,000	\$ 33,250	\$ 1,330,000	\$ -	\$ 1,330,000	\$ -
Series 2015 Unlimited Tax Refunding Bonds	2.0% to 4.0%	8,355,000	312,000	8,250,000	-	-	8,250,000
Series 2016 Unlimited Tax Refunding Bonds	2.0% to 4.0%	8,400,000	272,200	8,285,000	-	45,000	8,240,000
Total Bond Obligation				17,865,000	-	1,375,000	16,490,000
Unamortized Premium on Bonds-							
Series 2008 Unlimited Tax School Building Bonds	N/A	128,697	N/A	20,913	-	20,913	-
Series 2015 Unlimited Tax Refunding Bonds	N/A	1,253,114	N/A	973,006	-	88,455	884,551
Series 2016 Unlimited Tax Refunding Bonds	N/A	966,601	N/A	701,259	-	113,718	587,541
Total Unamortized Premium on Bonds				1,695,178	-	223,086	1,472,092
Net Pension Liability (District's Share)- Unfunded Defined Benefit Retirement Plan Obligation	N/A	6,446,492	N/A	7,979,994	6,517,468	836,112	13,661,350
Net OPEB Liability (District's Share)- Other Post-Employment Benefit Obligation (Prior Period Adjustment)	N/A	25,099,579	N/A	14,217,104	3,043,313	235,224	17,025,193
Total Obligations of the District				\$ 41,757,276	\$ 9,560,781	\$ 2,669,422	\$ 48,648,635

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

J. Bonds and Long-Term Debt Payable (continued)

Dumas Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Dumas Independent School District. These requirements to the Municipal Advisory Council are for the \$25,000,000 Series 2008 Unlimited Tax School Building Bonds, the \$8,355,000 Series 2015 Unlimited Tax Refunding Bonds, and the \$8,400,000 Series 2016 Unlimited Tax Refunding Bonds. There are a number of limitations and restrictions contained in the various general obligation bond indentures. Administration has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2019.

The \$25,000,000 Unlimited Tax School Building Bonds, Series 2008, dated July 1, 2008, were issued in accordance with the Constitution and laws of the State of Texas, including Chapter 45 of the Texas Education Code, as amended. The bonds were issued for the purpose of construction, renovation, and equipment of school buildings and purchase of necessary sites for school buildings; purchase of technology equipment and new school buses; and paying the costs of issuing the bonds. The bonds are payable from ad valorem taxes on each one hundred dollars valuation of taxable property within the District, at a rate sufficient without limit as to rate or amount to pay Debt Service when due and payable allowing for delinquencies and costs of collection, pursuant to the authority granted by the Constitution and laws of the State of Texas. The payment of the bonds is guaranteed, pursuant to Article 7, Section 5, of the Texas Constitution, and Section 45.051, et seq., of the Texas Education Code by the corpus of the Permanent School Fund with certain limitations. The closing date of the bonds was July 24, 2008, with the following as the purchase price of the bond obligation:

Par amount of bonds	\$ 25,000,000
Premium	128,697
Accrued interest	72,995
Good faith check	<u>(500,000)</u>
Total Purchase Price of Bond Obligation	<u><u>\$ 24,701,692</u></u>

The bonds are callable (at par) on August 1, 2018. The final payment was made on August 1, 2018. The interest rate ranges from 3.62% to 5.0% with an average yield of 4.686%. The bonds are guaranteed pursuant to the bond guarantee program administered by the Texas Education Agency. Ad valorem taxes have been pledged for payment of these bonds. The current year interest paid for the Series 2008 Unlimited Tax School Building Bonds was \$33,250. Current requirements for principal and interest were accounted for in the Debt Service Fund. The building project was completed in August of 2010.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

J. Bonds and Long-Term Debt Payable (continued)

There was \$8,390,000 of bond principal that was paid with the Series 2015 Unlimited Tax Refunding Bonds, dated May 11, 2015. For financial reporting purposes, the portion of the Series 2008 Unlimited Tax School Building Bonds that were refunded were considered defeased, therefore, they were removed as a liability from the District's Government-wide Financial Statements. The Series 2015 Unlimited Tax Refunding Bonds (\$8,355,000), dated May 11, 2015, were issued in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended. The bonds are payable, as to principal and interest in the Debt Service Fund, from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the bonds. Interest on the bonds will accrue from May 11, 2015, and will be payable on February 1st and August 1st of each year commencing August 1, 2015, until stated maturity or prior redemption. Principal on the bonds are due as follows: August 1, 2015-\$105,000, August 1, 2023-\$800,000, August 1, 2025-\$1,765,000, August 1, 2026-\$1,830,000, August 1, 2027-\$1,890,000, and August 1, 2028-\$1,965,000. The interest rate ranges from 2.0% to 4.0%. The maturity date of the bonds is August 1, 2028. The current year interest paid is \$312,000. The refunding bond proceeds were used to pay off in 2015 the Series 2008 Unlimited Tax Schools Building Bonds principal and interest of \$8,390,000 and \$-0-, respectively. The difference between the cash flow requirements to service the 2015 Unlimited Tax Refunding Bonds over its life and the cash flow requirements to service the Series 2008 Unlimited Tax School Building Bonds was \$1,108,434. The economic gain that resulted because of the refunding bonds was \$943,814. There was no book gain or loss. The Bonds were issued at a premium of \$1,253,114. For financial reporting purposes, the portion of the Series 2008 Unlimited Tax School Building Bonds were considered defeased and, therefore, removed as a liability from the District's Government-wide Financial Statements. The defeased debt was called for redemption on May 11, 2015. The administration has indicated the District is in compliance with all reporting requirements. There was no accretion of interest.

There was \$8,400,000 of bond principal that was paid with the Series 2016 Unlimited Tax Refunding Bonds, dated March 1, 2016. For financial reporting purposes, the portion of the Series 2008 Unlimited Tax School Building Bonds that were refunded were considered defeased, therefore, they were removed as a liability from the District's Government-wide Financial Statements. The Series 2016 Unlimited Tax Refunding Bonds (\$8,400,000), dated March 1, 2016,

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

J. Bonds and Long-Term Debt Payable (continued)

were issued in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended. The bonds are payable, as to principal and interest in the Debt Service Fund, from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the bonds. Interest on the bonds will accrue from March 1, 2016, and will be payable on February 1st and August 1st of each year commencing August 1, 2016, until stated maturity or prior redemption. Principal on the bonds are due as follows:

<u>August 1:</u>	
2019	\$ 1,430,000
2020	1,445,000
2021	1,480,000
2022	1,505,000
2023	760,000
2024	<u>1,620,000</u>
Totals	<u>\$ 8,240,000</u>

The interest rate ranges from 2.0% to 4.0%. The maturity date of the bonds is August 1, 2024. The current year interest paid is \$272,200. The refunding bond proceeds were used to pay off in 2016 the Series 2008 Unlimited Tax School Building Bonds principal and interest of \$8,415,000 and \$-0-, respectively. The difference between the cash flow requirements to service the 2016 Unlimited Tax Refunding Bonds over its life and the cash flow requirements to service the Series 2008 Unlimited Tax School Building Bonds was \$755,050. The economic gain that resulted because of the refunding bonds was \$717,387. There was no book gain or loss. The bonds were issued at a premium of \$966,601. For financial reporting purposes, the portion of the Series 2008 Unlimited Tax School Building Bonds were considered defeased and, therefore, removed as a liability from the District's Government-wide Financial Statements. The defeased debt was for redemption on March 1, 2016. The administration has indicated the District is in compliance with all reporting requirements. There was no accretion of interest.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

J. Bonds and Long-Term Debt Payable (continued)

The District is subject to arbitrage provisions under the Internal Revenue Code (IRC), which requires that excess earnings on invested proceeds from tax-exempt bond sales, over interest expense paid to bond holders be remitted to the Internal Revenue Service. The District did not have an arbitrage liability due and payable at June 30, 2019.

The District provides retirement, disability, and death benefits for all its full-time employees through a defined benefit plan. The unfunded status of the plan as of June 30, 2019, was \$13,661,350. At the time of the audit, the latest information available from the actuaries was as of August 31, 2018. The unfunded liability is reported as a long-term liability in the Statement of Net Position (Exhibit A-1).

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). This program is a cost-sharing defined Other Post-Employment Benefit (OPEB) plan. The unfunded status of the plan as of June 30, 2019, was \$17,025,193. At the time of the audit, the latest information available was as of August 31, 2018. The unfunded liability is reported as a long-term liability in the Statement of Net Position (Exhibit A-1).

K. Commitments Under Operating Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of June 30, 2019, as follows:

<u>Year Ending June 30,</u>	
2020	\$ 70,769
2021	70,769
2022	35,385
2023	-
2024	-
	<hr/>
Totals	<u><u>\$ 176,923</u></u>

Rental expenditures in fiscal year 2019 were \$94,611.

The imputed interest on the leases ranges from 6.0% to 10.0%.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

L. Debt Service Requirements - Bonds, Long-Term Loans, Capital Leases, and Other Long-Term Debt

Debt service requirements for bonds are as follows:

Bonded Indebtedness			
Year Ending June 30,	Principal	Interest	Total Requirements
2020	\$ 1,430,000	\$ 569,450	\$ 1,999,450
2021	1,445,000	533,475	1,978,475
2022	1,480,000	489,600	1,969,600
2023	1,505,000	437,300	1,942,300
2024	1,560,000	380,000	1,940,000
Thereafter	9,070,000	914,600	9,984,600
Totals	<u>\$ 16,490,000</u>	<u>\$ 3,324,425</u>	<u>\$ 19,814,425</u>

Long-Term Loans

The District had no long-term loans as of June 30, 2019.

Capital Leases

The District had no capital leases for the year ended June 30, 2019.

Other Long-Term Debt

The District had other long-term debt for the year ended June 30, 2019, as follows:

Total			
Year Ending June 30,	Principal	Interest	Requirements
2020	\$ -	\$ -	\$ -
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
Thereafter	30,686,543	-	30,686,543
Totals	<u>\$ 30,686,543</u>	<u>\$ -</u>	<u>\$ 30,686,543</u>

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

M. Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

M. Defined Benefit Pension Plan (continued)

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2019 FY Employer Contributions	\$	817,486
District's 2019 FY Member Contributions	\$	2,095,603
District's 2018 Measurement Year NECE On-Behalf Contributions	\$	1,345,398

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).

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

M. Defined Benefit Pension Plan (continued)

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers, including public schools, are required to pay the employer contribution rate in the following instances:

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

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

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

Actuarial Assumptions

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

M. Defined Benefit Pension Plan (continued)

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

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018, are summarized as follows:

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

*Target allocations are based on the FY2016 policy model.

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

M. 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 1.0% less than and 1.0% greater than the discount rate that was used (6.907%) in measuring the 2018 Net Pension Liability.

	1.0% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1.0% Increase in Discount Rate (7.907%)
Dumas Independent School District's proportionate share of the Net Pension Liability:	\$ 20,618,254	\$ 13,661,350	\$ 8,029,325

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, Dumas Independent School District reported a liability of \$13,661,350 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Dumas Independent School District. The amount recognized by Dumas Independent School 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 Dumas Independent School District were as follows:

Dumas ISD's proportionate share of the collective net pension liability	\$ 13,661,350
State's proportionate share that is associated with the District	<u>21,996,341</u>
Total	<u>\$ 35,657,691</u>

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

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.024819673%, which was a decrease of 0.000137607% from its proportion measured as of August 31, 2017.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

M. Defined Benefit Pension Plan (continued)

Changes Since the Prior Actuarial Valuation

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

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

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

For the year ended June 30, 2019, Dumas Independent School District recognized pension expense of \$3,823,124 and revenue of \$2,177,052 for support provided by the State in the Government-wide Statement of Activities.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

M. Defined Benefit Pension Plan (continued)

At June 30, 2019, Dumas Independent School 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: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 85,154	\$ 335,196
Changes in actuarial assumptions	4,925,575	153,924
Difference between projected and actual investment earnings	-	259,214
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,015,770	589,106
Contributions paid to TRS subsequent to the measurement date	683,496	-
Total	<u>\$ 6,709,995</u>	<u>\$1,337,440</u>

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

Year ended June 30:	Pension Expense Amount
2020	\$ 1,302,759
2021	757,266
2022	603,029
2023	723,392
2024	767,471
Thereafter	535,142

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

N. Defined Other Post-Employment Benefit Plans

Plan Description

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

OPEB Plan Fiduciary Net Position

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

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

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$50,729,490,103
Less: plan fiduciary net position	<u>798,574,633</u>
Net OPEB liability	<u>\$49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

Benefits Provided

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017. These are described below under the section “Changes in Benefit Terms”.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage. These new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018. (See the TRS CAFR page 70 for plan rates effective from September 1, 2016 - December 31, 2017.)

TRS-Care Monthly Premium Rates		
Effective January 1, 2018 - December 31, 2018		
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

Contributions

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

Texas Insurance Code, Section 1575.202 establishes the state’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer 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 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%
 District's 2019 FY Employer Contributions	 \$	 231,134
District's 2019 FY Member Contributions	\$	176,867
Measurement Year NECE On-Behalf Contributions	\$	317,353

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

Actuarial Assumptions

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

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69%
	Sourced from fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
Aging Factors	Based on Plan Specific Experience
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
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%
Ad-hoc Post-Employment Benefit Changes	None

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

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

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

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

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability: Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%) in measuring the net OPEB liability.

	<u>1% Decrease in Discount Rate (2.69%)</u>	<u>Current Single Discount Rate (3.69%)</u>	<u>1% Increase in Discount Rate (4.69%)</u>
Dumas Independent School District's proportionate share of the net OPEB liability	<u>\$ 20,265,829</u>	<u>\$ 17,025,193</u>	<u>\$ 14,461,641</u>

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

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.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Dumas Independent School District's proportionate share of the net OPEB liability	<u>\$ 14,139,700</u>	<u>\$ 17,025,193</u>	<u>\$ 20,825,449</u>

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

At June 30, 2019, Dumas Independent School District reported a liability of \$17,025,193 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 Dumas Independent School District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 17,025,193
State's proportionate share that is associated with the District	<u>23,002,375</u>
Total	<u>\$ 40,027,568</u>

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

At August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.034097498% compared to the 0.032693332% as of August 31, 2017. This is an increase of 0.001404166%.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

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:

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

Changes in Benefit Terms

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

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

For the year ended June 30, 2019, Dumas Independent School District recognized OPEB expense of \$1,320,846 and revenue of \$836,688 for support provided by the State.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

N. Defined Other Post-Employment Benefit Plans (continued)

At June 30, 2019, Dumas Independent School 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 actuarial experience	\$ 903,464	\$ 268,683
Changes in actuarial assumptions	284,104	5,115,094
Net Difference between projected and actual investment earnings	2,977	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	769,647	-
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	192,661	-
Total	<u>\$ 2,152,853</u>	<u>\$5,383,777</u>

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

Year ended June 30:	OPEB Expense Amount
2020	\$ (574,327)
2021	(574,327)
2022	(574,327)
2023	(574,890)
2024	(575,212)
Thereafter	(550,502)

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

O. On-Behalf Payments – Teacher Retirement/ TRS-Care

The revenues from “On-Behalf” payments of matching teacher retirement for active members of the District is in accordance with GASB. The District contributes matching funds for personnel funded from federal sources and, if applicable, statutory minimum funds for qualifying personnel. The State provides the matching funds on behalf of the members. The District’s on-behalf payments for the fiscal years ended June 30, 2019, 2018, and 2017 were \$1,769,440, \$1,807,109, and \$1,713,106, respectively. On-Behalf payments are reported as state revenue in the financial statements.

P. Medicare Part D and TRS-Care - On-Behalf Payments

Federal Government Retiree Drug Subsidy – Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. Payments made on-behalf of the District for the years ended June 30, 2019, 2018, and 2017 were \$87,995, \$108,777, and \$124,178, respectively. The revenues from “On-Behalf” payments for other post-employment benefits (TRS-Care) for the year ended June 30, 2019 and 2018, were \$17,327 and \$51,982, respectively.

Q. Health Care Coverage

During the year ended June 30, 2019, the employees of the District were covered by a health insurance plan (the Plan) with TRS Active Care. The District contributed premiums of \$384 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All contracts were paid to a third party administrator acting on behalf of the self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code. The contract between Dumas Independent School District and the third party administrator is automatically renewed each year and terms of coverage and contribution costs are included in the contractual provisions. The District is only a participant in the self-funded pool and does not share in the risks and liabilities of the pool.

Because the District is only a participant, stop-loss coverage and unpaid claims do not apply to the District. Latest financial statements for the health insurance plan are available for the year ended June 30, 2019, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

R. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Long-Term Loans, and Notes Payable:					
General obligation bonds	\$ 17,865,000	\$ -	\$ 1,375,000	\$ 16,490,000	\$ 1,430,000
Long-term loans and notes	-	-	-	-	-
Less deferred amount on refunding	-	-	-	-	-
Total Bonds, Long-Term Loans, and Notes Payable	<u>17,865,000</u>	<u>-</u>	<u>1,375,000</u>	<u>16,490,000</u>	<u>1,430,000</u>
Other Liabilities:					
Capital leases	-	-	-	-	-
Unfunded defined benefit retirement obligation	7,979,994	6,517,468	836,112	13,661,350	-
Other Post-Employment Benefit Obligation	<u>14,217,104</u>	<u>3,043,313</u>	<u>235,224</u>	<u>17,025,193</u>	<u>-</u>
Total Other Liabilities	<u>22,197,098</u>	<u>9,560,781</u>	<u>1,071,336</u>	<u>30,686,543</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 40,062,098</u>	<u>\$ 9,560,781</u>	<u>\$ 2,446,336</u>	<u>47,176,543</u>	<u>\$ 1,430,000</u>
Due within one year				(1,430,000)	
Unamortized premium on bonds				<u>1,472,092</u>	
Total Long-Term Liabilities Due in More Than One Year including Net Pension Liability (District's Share) and Net OPEB Liability (District's Share)				<u>\$ 47,218,635</u>	

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

S. Unearned Revenue

Unearned revenue for the year ended June 30, 2019, consisted of the following:

	General Fund	Other Nonmajor Funds	Total
Federal Revenue	\$ -	\$ 16,178	\$ 16,178
State Revenue	-	-	-
Total Unearned Revenue	<u>\$ -</u>	<u>\$ 16,178</u>	<u>\$ 16,178</u>

T. Fund Balances – Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the District's Board of Trustees.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

T. Fund Balances – Governmental Funds (continued)

As of June 30, 2019, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Inventories	\$ 68,155	\$ 29,795	\$ 97,950
Restricted:			
Federal or state funds grant restriction	-	275,485	275,485
Other Restricted	-	952	952
Retirement of long-term debt	-	1,737,016	1,737,016
Total Restricted	-	2,013,453	2,013,453
Committed:			
Construction	4,000,000	-	4,000,000
Capital expenditures for equipment	2,300,000	-	2,300,000
Total Committed	6,300,000	-	6,300,000
Assigned:			
Capital expenditures for equipment	4,500,000	-	4,500,000
Unassigned funds	9,725,961	-	9,725,961
Total Fund Balances	\$ 20,594,116	\$ 2,043,248	\$ 22,637,364

The total committed funds in the General Fund is \$6,300,000. The total restricted funds in the Nonmajor Governmental Funds is \$2,013,453.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

U. Revenue from Local and Intermediate Sources

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

	General Fund	Other Nonmajor Funds	Total
Property taxes	\$ 19,137,973	\$ 1,987,864	\$ 21,125,837
Penalties, interest, and other tax- related income	116,164	11,866	128,030
Investment income	471,910	23,591	495,501
Food sales	-	290,796	290,796
Cocurricular student activities	91,668	-	91,668
Other	319,476	40,760	360,236
Totals	<u>\$ 20,137,191</u>	<u>\$ 2,354,877</u>	<u>\$ 22,492,068</u>

V. Insurance Recoveries

Dumas Independent School District had the following insurance recoveries at June 30, 2019:

1. Custard Insurance Adjusters/Berkley Insurance

On April 27, 2018, there was an incident due to faulty wiring which shorted-out multiple electrons. On August 23, 2018, \$12,473 was received. The equipment was purchased at various times for a total cost of \$15,822 and had a book value of \$12,473 at the time of the loss. The economic loss was \$-0-. There was a full insurance recovery and there was no impairment of this asset as of June 30, 2019. The insurance proceeds were reported as other local revenue.

2. Progressive Insurance

On April 5, 2019, a 2017 Ford Transit was involved in a collision with another vehicle. On June 19, 2019, \$5,984 was received. The cost of the vehicle was \$37,723. The vehicle was purchased in 2018. The book value at the time of the collision was \$33,951, and the economic loss was \$-0-. The vehicle was repaired and there was no impairment of this asset as of June 30, 2019. The insurance proceeds are reported as other local revenue.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

V. Insurance Recoveries (continued)

3. Property Casualty Alliance of Texas Claims Account

Various buildings of the District were damaged by hail on March 23, 2017. On August 31, 2018, \$50,314 was received. The cost of the buildings was \$74,292,615. The book value at the time of the loss was \$40,403,772. The economic loss was \$-0-. The necessary repairs were made in the year the damage was incurred, and there was no impairment of these assets as of June 30, 2019. The insurance proceeds are reported as other local revenue.

W. Joint Venture - Shared Services Arrangements

The District participates in a shared services arrangement for the Amarillo Regional Day School Program for the Deaf with 61 other school districts. Although 5.26% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint interest in fixed assets purchased by the fiscal agent, Amarillo Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Dumas Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the expenditures attributable to the District's participation in the General Fund.

93-6492	Payments to Fiscal Agent of Shared Services Arrangement	<u>\$ 69,452</u>
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DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

X. General Fund Federal Source Revenues

Program or Source	CFDA Number	Amount
Indirect Cost:		
ESEA, Title I, Part A - Improving Basic Programs	84.010A	\$ 20,404
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	2,709
Career and Technical - Basic Grant	84.048A	528
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	3,308
Title IV, Part A, Subpart I	84.424A	880
IDEA - Part B, Formula	84.027A	20,760
IDEA - Part B, Preschool	84.173A	828
Total Indirect Cost for General Fund		<u>49,417</u>
School Health and Related Services (SHARS)-not included in the Schedule of Expenditures of Federal Awards		<u>1,164,900</u>
Total General Fund Federal Source Revenues		<u><u>\$ 1,214,317</u></u>

The School Health and Related Service Expenditures are not included in Schedule of Expenditures of Federal Awards.

Y. Workers' Compensation

The District participates in the Public Workers' Compensation Program (the Program) self-insurance fund for workers' compensation insurance. The District, as a member of the Program, pays a contribution for the fund year to cover the servicing costs of program administration, claims handling, loss control, and stop-loss coverage, as well as all claims expenses. The District's required contribution for the year ended June 30, 2019, was \$222,635 and was recorded as an insurance expenditure.

The Public Workers' Compensation Program purchases aggregate excess and specific excess reinsurance for protection against losses in excess of applicable retentions. The Program carries the following excess coverage: (a) aggregate excess reinsurance - when total net losses exceed the established attachment point of \$3,376,208 the maximum coverage of \$2,000,000 takes effect; (b) specific excess reinsurance - when losses from an individual occurrence exceed the attachment point of \$450,000, the Program has purchased specific excess reinsurance coverage to pay further losses. Both aggregate excess and specific excess reinsurance is provided by Safety National Casualty Corporation. All risks and liabilities are not shared by Dumas Independent School District; they are the liability of the Public Workers' Compensation Program.

DUMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2019

Z. Property/Casualty Insurance

During the year ended June 30, 2019, the District participated in the Property Casualty Alliance of Texas (the Fund) Property and Liability Program.

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

Based on the information we have available as of today, for the year ended June 30, 2019, the District will have no additional liability beyond the contractual obligations for payment of contributions.

AA. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2019, the District purchased insurance to cover general liabilities. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

BB. Debt Issuances and Defeasance of Debt

The District had no debt issuances for the year ended June 30, 2019.

There was no defeasance of debt for the year ended June 30, 2019.

CC. Contingencies

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 related receivable at June 30, 2019, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

DD. Litigation

The District was a defendant in two lawsuits at June 30, 2019. The District's administration believes there is no material liability to the District due to these lawsuits.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

EE. Subsequent Events

The District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were available to be issued (October 10, 2019), and had the following subsequent event that was required to be disclosed:

The Board of Trustees have elected to call a bond election on November 5, 2019, for the purpose to approve a \$107 million building project. The proposed bond package includes three new replacement Elementary schools; replace HVAC units, LED lighting, and district-wide energy management program; expand construction and building trades classrooms, shops, and equipment; enlarge band hall, practice rooms, restrooms, and storage space for uniforms and band equipment; secure entryways at Dumas High School and Dumas Junior High; and renovate kitchens and serving areas at Dumas High School and Dumas Junior High. The expected completion date is August 2023.

REQUIRED SUPPLEMENTARY INFORMATION

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 19,345,000	\$ 20,128,880	\$ 20,137,191	\$ 8,311
5800 State Program Revenues	15,281,288	15,129,351	14,904,498	(224,853)
5900 Federal Program Revenues	750,000	1,262,000	1,214,317	(47,683)
5020 Total Revenues	35,376,288	36,520,231	36,256,006	(264,225)
EXPENDITURES:				
Current:				
0011 Instruction	20,307,534	21,223,350	20,913,013	310,337
0012 Instructional Resources and Media Services	415,291	454,861	451,541	3,320
0013 Curriculum and Instructional Staff Development	1,064,863	1,270,550	1,267,576	2,974
0021 Instructional Leadership	401,540	392,712	386,918	5,794
0023 School Leadership	2,217,922	2,270,986	2,159,977	111,009
0031 Guidance, Counseling and Evaluation Services	752,303	675,991	651,271	24,720
0033 Health Services	332,656	367,339	358,526	8,813
0034 Student (Pupil) Transportation	1,237,683	927,011	893,927	33,084
0035 Food Services	-	21,582	20,743	839
0036 Extracurricular Activities	1,316,647	1,858,892	1,849,869	9,023
0041 General Administration	1,512,314	1,442,244	1,422,394	19,850
0051 Facilities Maintenance and Operations	4,281,524	4,408,920	4,251,366	157,554
0052 Security and Monitoring Services	197,259	254,322	225,491	28,831
0053 Data Processing Services	788,184	982,161	758,290	223,871
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	836,540	763,894	72,646
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	70,000	70,000	69,452	548
0099 Other Intergovernmental Charges	431,000	431,000	419,687	11,313
6030 Total Expenditures	35,326,720	37,888,461	36,863,935	1,024,526
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	49,568	(1,368,230)	(607,929)	760,301
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	8,206	8,206
8949 Other (Uses)	-	(409,259)	(409,259)	-
7080 Total Other Financing Sources (Uses)	-	(409,259)	(401,053)	8,206
1200 Net Change in Fund Balances	49,568	(1,777,489)	(1,008,982)	768,507
0100 Fund Balance - July 1 (Beginning)	21,603,098	21,603,098	21,603,098	-
3000 Fund Balance - June 30 (Ending)	\$ 21,652,666	\$ 19,825,609	\$ 20,594,116	\$ 768,507

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas
For the Year Ended June 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016
District's Proportion of the Net Pension Liability (Asset)	0.024819673%	0.02495728%	0.026016749%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 13,661,350	\$ 7,979,994	\$ 9,831,343
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	21,996,341	13,327,308	16,471,692
Total	<u>\$ 35,657,691</u>	<u>\$ 21,307,302</u>	<u>\$ 26,303,035</u>
District's Covered Payroll	\$ 27,553,173	\$ 27,139,162	\$ 27,318,145
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	49.58%	29.40%	35.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.74%	82.17%	78.00%

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

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

FY 2016 Plan Year 2015		FY 2015 Plan Year 2014	
0.0287002%		0.0196543%	
\$	10,145,139	\$	5,249,935
16,414,555		14,338,853	
\$	26,559,694	\$	19,588,788
\$	27,551,143	\$	27,052,651
36.82%		19.41%	
78.43%		83.25%	

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of District's Contributions for Pensions
Teacher Retirement System of Texas
For Fiscal Year 2019

	2019	2018	2017
Contractually Required Contribution	\$ 817,486	\$ 838,947	\$ 812,592
Contribution in Relation to the Contractually Required Contribution	(817,486)	(838,947)	(812,592)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 27,532,435	\$ 27,537,182	\$ 27,091,557
Contributions as a Percentage of Covered Payroll	2.97%	3.05%	3.00%

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

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

2016		2015	
\$	868,529	\$	782,386
	(868,529)		(782,386)
\$	-	\$	-
\$	27,405,597	\$	27,462,194
	3.17%		2.85%

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net OPEB Liability
Teacher Retirement System of Texas
For the Year Ended June 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post-Employment Benefits	0.034097498%	0.032693332%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 17,025,193	\$ 14,217,104
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	23,002,375	20,853,778
Total	<u>\$ 40,027,568</u>	<u>\$ 35,070,882</u>
District's Covered Payroll	\$ 27,553,173	\$ 27,139,162
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	61.79%	52.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.57%	0.91%

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of District's Contributions for Other Post-Employment Benefits (OPEB)
Teacher Retirement System of Texas
For Fiscal Year 2019

	2019	2018
Contractually Required Contribution	\$ 231,134	\$ 225,703
Contribution in Relation to the Contractually Required Contribution	(231,134)	(225,703)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered Payroll	\$ 27,532,435	\$ 27,537,182
Contributions as a Percentage of Covered Payroll	0.84%	0.82%

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

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

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2019

A. Notes to Schedules for the TRS Pension

Changes of benefit terms;

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

Changes of assumptions.

The Total Pension Liability as of August 31, 2018, was developed using a roll-forward method from the August 31, 2017, valuation.

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.

Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.

The discount rate changed from 8.0% as of August 31, 2017, to 6.907% as of August 31, 2018.

The long-term assumed rate of return changed from 8.0% to 7.25%.

The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

B. Notes to Schedules for the TRS OPEB Plan

Changes in benefit terms;

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

Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017, and are not eligible to enroll in Medicare.

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2019

Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.

Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.

Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.

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

Changes in assumptions.

Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.

The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.

Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.

The discount rate changed from 3.42% as of August 31, 2017, to 3.69% as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.

REQUIRED TEA SCHEDULES

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Delinquent Taxes Receivable
Fiscal Year Ended June 30, 2019

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ Various
2011	1.040000	0.104900	2,024,711,066
2012	1.040000	0.107100	1,949,543,719
2013	1.040000	0.106900	2,046,632,852
2014	1.040000	0.107400	2,115,576,581
2015	1.040000	0.104600	2,054,886,692
2016	1.040000	0.101500	2,011,474,070
2017	1.040000	0.112000	1,748,916,415
2018	1.040000	0.110000	1,808,934,609
2019 (School year under audit)	1.040000	0.107900	1,858,340,725
1000 TOTALS			

Source: Moore County Tax Assessor/Collector. October 1st tax roll current year adjustments must be applied to the tax levy after October 1st due to taxpayer protests and valuation adjustments. Tax rates are per \$100 of assessed valuation. No payments to Tax Increment Zone under Chapter 313.

(10) Beginning Balance 7/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2019
\$ 58,532	\$ -	\$ 2,821	\$ 131	\$ (13,350)	\$ 42,230
11,502	-	1,052	106	-	10,344
20,723	-	529	54	-	20,140
25,816	-	564	58	-	25,194
25,410	-	2,481	256	-	22,673
20,633	-	3,673	369	-	16,591
68,958	-	12,127	1,184	-	55,647
97,814	-	23,204	2,499	(502)	71,609
284,769	-	171,467	18,135	(20,370)	74,797
-	21,331,893	18,920,055	1,965,072	(94,719)	352,047
<u>\$ 614,157</u>	<u>\$ 21,331,893</u>	<u>\$ 19,137,973</u>	<u>\$ 1,987,864</u>	<u>\$ (128,941)</u>	<u>\$ 691,272</u>

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Child Nutrition Program
For the Year Ended June 30, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 338,900	\$ 338,900	\$ 323,712	\$ (15,188)
5800 State Program Revenues	11,500	11,500	10,331	(1,169)
5900 Federal Program Revenues	1,927,000	1,927,000	1,914,822	(12,178)
5020 Total Revenues	2,277,400	2,277,400	2,248,865	(28,535)
EXPENDITURES:				
Current:				
0035 Food Services	2,345,954	2,317,785	2,289,702	28,083
6030 Total Expenditures	2,345,954	2,317,785	2,289,702	28,083
1200 Net Change in Fund Balances	(68,554)	(40,385)	(40,837)	(452)
0100 Fund Balance - July 1 (Beginning)	102,789	102,789	102,789	-
3000 Fund Balance - June 30 (Ending)	\$ 34,235	\$ 62,404	\$ 61,952	\$ (452)

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Debt Service Fund
For the Year Ended June 30, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 2,010,825	\$ 2,012,302	\$ 2,019,772	\$ 7,470
5800 State Program Revenues	30,000	33,313	33,509	196
5020 Total Revenues	2,040,825	2,045,615	2,053,281	7,666
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,375,000	1,375,000	1,375,000	-
0072 Interest on Long-Term Debt	617,450	617,450	617,450	-
0073 Bond Issuance Cost and Fees	1,500	1,500	800	700
6030 Total Expenditures	1,993,950	1,993,950	1,993,250	700
1100 Excess of Revenues Over Expenditures	46,875	51,665	60,031	8,366
OTHER FINANCING SOURCES (USES):				
8949 Other (Uses)	-	(43,281)	(43,281)	-
1200 Net Change in Fund Balances	46,875	8,384	16,750	8,366
0100 Fund Balance - July 1 (Beginning)	1,720,266	1,720,266	1,720,266	-
3000 Fund Balance - June 30 (Ending)	\$ 1,767,141	\$ 1,728,650	\$ 1,737,016	\$ 8,366

**REPORTS ON INTERNAL CONTROL,
ON COMPLIANCE AND OTHER MATTERS,
AND FEDERAL AWARDS**

COY BARTON, C.P.A.

CERTIFIED PUBLIC ACCOUNTANT

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P.O. BOX 800 – TELEPHONE 806-935-4188

DUMAS, TEXAS 79029

MEMBER OF

THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

THE AICPA'S PRIVATE COMPANIES
PRACTICE SECTION

TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Dumas Independent School District
P.O. Box 615
Dumas, Texas

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dumas Independent School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Dumas Independent School District's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Coy Barton, CPA
Dumas, Texas

October 10, 2019

COY BARTON, C.P.A.

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INDEPENDENT AUDITOR'S REPORT

On Compliance for Each Major Federal Program; on Internal Control Over Compliance; and on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Trustees
Dumas Independent School District
P.O. Box 615
Dumas, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Dumas Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Dumas Independent School District's major federal programs for the year ended June 30, 2019. Dumas Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Administration's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Dumas Independent School District complied, in all material respects, with the types of compliance requirements referred to previously that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Dumas Independent School District as of and for the for the year ended June 30, 2019, and have issued our report thereon dated October 10, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of administration and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Coy Barton, CPA
Dumas, Texas

October 10, 2019

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

I. Summary of the Auditor's Results:

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Type of Report on Financial Statements	Unmodified Opinion
Significant Deficiencies in Internal Control	None
Significant Deficiencies in Internal Control that were Material Weaknesses	None
Noncompliance Material to the Financial Statements	None
Significant Deficiencies in Internal Control over Major Programs	None
Significant Deficiencies in Internal Control over Major Programs that were Material Weaknesses	None
Type of Report on Compliance with Major Programs	Unmodified Opinion
Findings and Questioned Costs for Federal Awards as defined in Uniform Guidance, including significant deficiencies in internal control over major programs, material noncompliance, questioned costs when likely questioned cost greater than \$25,000, Auditor's report other than unmodified opinion, known fraud of federal award and misrepresentation of status of prior findings	None
Known Questioned Cost greater than \$25,000 for a Federal Program which is not audited as a major program	None
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Low-Risk Auditee Statements	The District was not classified as a low-risk auditee in the context of Uniform Guidance

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

I. Summary of the Auditor's Results: (continued)

PROGRAM

Major Federal Programs

DESCRIPTION

CFDA 84.010A ESEA Title I, Part A
Improving Basic Programs
CFDA 84.027A IDEA, Part B, Formula
CFDA 84.173A IDEA, Part B, Preschool
CFDA 84.027A IDEA, Part B, Discretionary

Pass-through Entity

Texas Education Agency

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*:

Criteria	None
Condition Found	None
Questioned Costs Basis	None
Instances/Universe	None
Effect	None
Recommendations	None
Total All Questioned Costs	None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings:

FINDINGS

None

QUESTIONED COSTS

None

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Status of Prior Audit Findings
For the Year Ended June 30, 2019

FINDING	PROGRAM	STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE
None	None	None

DUMAS INDEPENDENT SCHOOL DISTRICT

Corrective Action Plan

For the Year Ended June 30, 2019

FINDING

None

CORRECTIVE ACTION PLAN

None

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through ESC, Region XVI</u>			
ESEA, Title I, Part C - Migratory Children	84.011A	19615001188950	\$ 16,298
Total Passed Through ESC, Region XVI			16,298
<u>Passed Through ESC, Region XX</u>			
*IDEA - Part B, Discretionary	84.027A	2265431916006	19,838
Total Passed Through ESC, Region XX			19,838
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101171901	776,099
*IDEA - Part B, Formula	84.027A	19600011719016600	789,663
*IDEA - Part B, Formula	84.027A	18600011719016600	100,087
Total CFDA Number 84.027A			889,750
*IDEA - Part B, Preschool	84.173A	19600011719016600	15,862
*IDEA - Part B, Preschool	84.173A	18600011719016600	4,927
Total CFDA Number 84.173A			20,789
Total Special Education Cluster (IDEA)			930,377
Career and Technical - Basic Grant	84.048A	19420006171901	48,955
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	19696001171901	49,060
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	18696001171901	20,484
Total CFDA Number 84.358B			69,544
Title III, Part A - English Language Acquisition	84.365A	19671001171901	125,810
ESEA, Title II, Part A, Teacher Principal Training	84.367A	19694501171901	103,055
Title IV, Part A, Subpart I - Student Support	84.424A	19680101171901	33,488
Title VI, Part A - Summer School LEP	84.369A	96551702	5,007
Total Passed Through State Department of Education			2,072,497
TOTAL U.S. DEPARTMENT OF EDUCATION			2,108,633
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through State Department of Education</u>			
Head Start	93.600	08CH10104-01	236,257
Total Passed Through State Department of Education			236,257
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			236,257
 U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		651,649

DUMAS INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
*National School Lunch Program - Cash Assistance	10.555		1,124,046
*National School Lunch Prog. - Non-Cash Assistance	10.555		<u>139,127</u>
Total CFDA Number 10.555			<u>1,263,173</u>
*Summer Feeding Program - Cash Assistance	10.559		8,682
*Non Cash Assistance - Summer Feeding Program	10.559		<u>557</u>
Total CFDA Number 10.559			<u>9,239</u>
Total Child Nutrition Cluster			<u>1,924,061</u>
Total Passed Through the State Department of Agriculture			<u>1,924,061</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u><u>1,924,061</u></u>

TOTAL EXPENDITURES OF FEDERAL AWARDS\$ 4,268,951

*Clustered Programs

DUMAS INDEPENDENT SCHOOL DISTRICT
Notes on Accounting Policies for Federal Awards
For the Year Ended June 30, 2019

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Special Revenue Fund or, in some instances, in the General Fund which are Governmental Fund type funds.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

3. The period performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, Part 3, Uniform Guidance Compliance Supplement.
4. CFDA numbers for commodity assistance are the CFDA numbers of the programs under which USDA donated the commodities.
5. Indirect cost reimbursement for federal programs for this fiscal year was received in the amount of \$49,417.
6. Reconciliation of Expenditures of Federal Awards:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 4,268,951
Total School Health and Related Services not included	
on Expenditures of Federal Awards	<u>1,164,900</u>
Total	<u><u>\$ 5,433,851</u></u>

7. Dumas Independent School District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

APPENDIX D

**FORM OF BOND COUNSEL'S
OPINION**

BRACEWELL

[CLOSING DATE]

\$67,295,000
DUMAS INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2020

We have represented Dumas Independent School District (the “Issuer”) as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

DUMAS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL
BUILDING BONDS, SERIES 2020, dated as of March 1, 2020.

The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the bond order adopted by the Board of Trustees of the Issuer authorizing their issuance (the “Order”).

We have represented the Issuer as its bond counsel 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 excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. 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. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. T-1 of this issue.

Bracewell LLP

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BRACEWELL

[CLOSING DATE]

Page 2

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

Based on such examination, it is our opinion that:

- A. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Bonds constitute valid and legally binding obligations of the Issuer;
- B. A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the Issuer and pledged irrevocably to the payment of the principal of and interest on the Bonds; and
- C. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. Further, in the event that the representations of the Issuer and other parties are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Order, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

