

OFFICIAL STATEMENT
Dated March 11, 2020

NEW ISSUE – BOOK ENTRY ONLY

Enhanced/Unenhanced Ratings:
Moody's: "Aaa" / "A1"
PSF Guaranteed

(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein) (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

\$26,950,000
HILLSBORO INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hill County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

Dated Date: March 1, 2020

Due: August 15, as shown on page -ii- herein

Interest to Accrue from Date of Delivery (defined below)

AUTHORITY FOR ISSUANCE AND SECURITY ... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the Hillsboro Independent School District (the "District") on November 5, 2019 (the "Election"), and a bond order (the "Bond Order") adopted by the Board of Trustees of the District on March 11, 2020. The Bonds are direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS - Authority for Issuance"). 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.

PAYMENT TERMS ... Interest on the Bonds will accrue from their date of initial delivery to the Underwriters (detailed below) will be payable on February 15 and August 15 of each year, commencing August 15, 2020, until stated maturity or prior redemption 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 the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co. (the "Securities Depository") the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. 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 (as applicable) 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.

PURPOSE ... Proceeds from the sale of the Bonds will be used (i) for designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities and (ii) to pay the costs of issuing the Bonds. See "PLAN OF FINANCING – Sources and Uses of Funds" herein.

**For Stated Maturities, 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 underwriters named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" hereto). Certain matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC about April 7, 2020 (the "Date of Delivery").

FHN FINANCIAL CAPITAL MARKETS

RAYMOND JAMES

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

**\$26,950,000
HILLSBORO INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hill County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

CUSIP No. Prefix 432164⁽¹⁾

\$17,475,000 Serial Bonds

Maturity Date	Principal	Interest Rate	Initial Yield	CUSIP No.⁽¹⁾
(8/15)	(\$)	(%)	(%)	Suffix
2020	1,010,000	5.00	0.99	JC6
2021	905,000	5.00	1.01	JD4
2022	950,000	5.00	1.04	JE2
2023	1,000,000	5.00	1.12	JF9
2024	1,050,000	2.00	1.16	JG7
2025	1,555,000	2.00	1.22	JH5
2026	1,825,000	5.00	1.31	JJ1
***	***	***	***	***
2032	715,000	5.00	1.67 ⁽²⁾	JK8
2033	750,000	5.00	1.72 ⁽²⁾	JL6
2034	790,000	5.00	1.76 ⁽²⁾	JM4
2035	830,000	5.00	1.80 ⁽²⁾	JN2
2036	870,000	4.00	1.92 ⁽²⁾	JP7
2037	905,000	4.00	1.96 ⁽²⁾	JQ5
2038	940,000	4.00	2.00 ⁽²⁾	JR3
2039	975,000	4.00	2.04 ⁽²⁾	JS1
2040	1,015,000	4.00	2.08 ⁽²⁾	JT9
***	***	***	***	***
2049	1,390,000	3.00	2.90 ⁽³⁾	JW2

\$9,475,000 Term Bonds

\$4,420,000 3.00% Term Bonds, due August 15, 2044, Priced to Yield 2.75%,⁽²⁾ CUSIP Suffix JU6⁽¹⁾

\$5,055,000 4.00% Term Bonds, due August 15, 2048, Priced to Yield 2.37%,⁽²⁾ CUSIP Suffix JV4⁽¹⁾

(Interest to accrue from the initial Date of Delivery)

The Bonds are subject to redemption prior to stated maturity at the times and prices specified herein. See "THE BONDS – Redemption Provisions of the Bonds."

⁽¹⁾ 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

⁽²⁾ Priced to first optional redemption date of August 15, 2029.

⁽³⁾ Priced to first optional redemption date of August 15, 2025.

**HILLSBORO INDEPENDENT SCHOOL DISTRICT
121 E. Franklin Street
Hillsboro, Texas 76645**

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Dr. Christopher Teague	President	May 2021	Physician
Guadalupe Mancha	Vice President	May 2020	Construction Company Owner
John Sawyer	Secretary	May 2022	Farmer
Earl Bibles	Member	May 2022	Security Officer
Gerardo Carbajal	Member	May 2020	Health Care Administrator
Stephanie Johnson	Member	May 2022	Attorney
Dr. Amanda Scarborough	Member	May 2021	Dentist

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Vicki Adams	Superintendent
Dale Snyder	Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors	James E. Rodgers and Company, P.C., Hamlin, Texas
Bond Counsel	Norton Rose Fulbright US LLP, San Antonio, Texas
Financial Advisor	Live Oak Public Finance, LLC, Austin, Texas

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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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation by the Underwriters.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, their 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" or the affairs of TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", as such information has been provided by DTC and TEA, respectively.

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

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

THE DISTRICT	The District is a political subdivision located in Hill County, Texas. The District is located approximately 30 miles north of Waco, Texas and is approximately 127.86 square miles in area (see "INTRODUCTION – Description of the District").
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the District on November 5, 2019 (the "Election"), and the Bond Order adopted by the Board.
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see "THE BONDS – Description of the Bonds").
DATED DATE	March 1, 2020.
PAYMENT OF INTEREST ..	Interest on the Bonds will accrue from the date of delivery and will be payable until stated maturity or prior to redemption on February 15 and August 15 of each year, commencing August 15, 2020 (see "THE BONDS – Description of the Bonds").
REDEMPTION PROVISIONS	<p><u>Optional Redemption.</u> The District reserves the right to redeem the bonds maturing on August 15, 2032, through August 15, 2048, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the District reserves the right to redeem the bonds maturing on August 15, 2049, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2025 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.</p> <p><u>Mandatory Sinking Fund Redemption.</u> Additionally, the Term Bonds (defined herein) maturing August 15 in the years 2044 and 2048 are subject to mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.</p>
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. See "THE BONDS - Security and Source of Payment".
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.
TAX EXEMPTION	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds will not be included in computing the alternative minimum tax. See "TAX MATTERS" and "APPENDIX C – FORM OF BOND COUNSEL'S OPINION".
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 Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding unlimited tax-supported debt of the District including the Bonds is rated "A1" by Moody's without regard to credit enhancement, and "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) The presently outstanding unlimited tax-supported debt of the District is rated "A" by S&P Global Ratings ("S&P") without regard to credit enhancement. The District has determined not to apply to S&P for a rating on the Bonds.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used (i) for designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities and (ii) to pay the costs of issuing the Bonds (see "PLAN OF FINANCING - Purpose" and "— Sources and Uses of Funds").
BOOK-ENTRY ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC

for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

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.
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 Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION” herein).

PRELIMINARY OFFICIAL STATEMENT

Relating to

\$26,950,000

HILLSBORO INDEPENDENT SCHOOL DISTRICT

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

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, C and D hereto, provides certain information regarding the issuance of the \$26,950,000 Hillsboro Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2020 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State" or "Texas"), Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the District on November 5, 2019 (the "Election"), and that certain bond order (the "Bond Order") adopted by the District's Board of Trustees. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS – Authority for Issuance"). Except as otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Bond Order.

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 Bond 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 Hillsboro Independent School District, 121 E. Franklin Street, Hillsboro, Texas 76645, 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.

Description of the District

The District is a political subdivision of the State located in Hill County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 127.86 square miles in Hill County, and fully encompasses the City of Hillsboro, Texas.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used (i) for designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities and (ii) to pay the costs of issuing the Bonds.

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	\$26,950,000.00
Reoffering Premium on the Bonds	<u>3,234,381.25</u>
TOTAL SOURCES	\$30,184,381.25
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$29,840,000.00
Underwriters' Discount	153,683.01
Costs of Issuance and Deposit to Interest & Sinking Fund	<u>190,698.24</u>
TOTAL USES	\$30,184,381.25

THE BONDS

Description of the Bonds

The Bonds will be dated March 1, 2020 (the "Dated Date") and mature on August 15 in each of the years and in the amounts shown on the inside cover page. Interest on the Bonds will accrue from the date of initial delivery (the "Delivery Date"), will be payable on August 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity.

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 (detailed 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 in principal for any one maturity.

The definitive Bonds will initially 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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service 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 above) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Financing Act, the Bond Order, and the Election.

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICT IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein. 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 "- Permanent School Fund Guarantee" herein.

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

Optional Redemption. The District reserves the right to redeem the Bonds maturing on August 15, 2032, through August 15, 2048, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the District reserves the right to redeem the bonds maturing on August 15, 2049, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2025 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. When the Bonds or portions thereof have been called for redemption and due provisions have been made to redeem the Bonds, the amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the Bonds or portions thereof called for redemption shall terminate on the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 15 in the years 2044 and 2048 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Bond 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 August 15 in each of the years as set forth below:

Term Bonds Stated to Mature on August 15, 2044		Term Bonds Stated to Mature on August 15, 2048	
Year	Principal Amount (\$)	Year	Principal Amount (\$)
2041	1,055,000	2045	1,190,000
2042	1,090,000	2046	1,240,000
2043	1,120,000	2047	1,285,000
2044	1,155,000*	2048	1,340,000*

*Payable at Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, 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 August 15 from money set aside for that purpose in the Bond Fund maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bond of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (3) 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 may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 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 each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE 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.

DTC Redemption Provisions

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

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Securities (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Securities together so certified sufficient to make such payment. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Order. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those 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 automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments to Bond Order

The District may, without the consent of or notice to any holders of the Bonds, from time to time and at any time amend the Bond Order without the consent of any beneficial owner in any manner not detrimental to the interests of the beneficial owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Bond Order; except that, without the consent of all of the beneficial owners of the Bonds then outstanding, 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 or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds. (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that 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 when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinions of the District's Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas.

Delivery

When issued; anticipated to occur on or about April 7, 2020.

Future Issues

On November 5, 2019, the District's voters authorized the District to issue \$29,840,000 in unlimited ad valorem tax bonds (the "Election"), proceeds from which will be utilized to undertake District-wide improvements. The Bonds are the first installment of this authorization and the District will apply bond proceeds (principal and allocated premium) in the aggregate amount of \$29,840,000 (leaving \$0 unissued) against the same. See "Table 7 – Authorized but Unissued Bonds" in APPENDIX A hereto.

Over the next twelve months, the District does not anticipate issuing any additional unlimited tax bonds. Additionally, the District may enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. The Bond Order provides for the District's 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 and 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 changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date for Interest Payment

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on any Bond is the close of business on the last business day of the month next preceding each 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 shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (i) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for

redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not 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, and interest on the Bonds are to be paid to and credited by DTC (defined below) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District 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.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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.

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

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the 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 Bond 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 Bond 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 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

CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 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		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2015	\$29,081,052,900	\$36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 ⁽²⁾	35,288,344,219	46,464,447,981

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

⁽²⁾ At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At 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	
At 8/31	Principal Amount ⁽¹⁾
2015	\$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 ⁽²⁾

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

⁽²⁾ As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, 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⁾

	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	\$63,197,514,047	28	\$ 757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽²⁾	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

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

⁽²⁾ At 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.

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. Reference is made to Title I of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Hill 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 “– 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 market value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport Exemptions

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

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

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

Other Exempt Property

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

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 "AD VALOREM TAX PROCEDURES – 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.

The Tax Code as Applied to the District

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Hill County.

The Appraisal District is governed by a board of eight directors appointed by members of the governing bodies of various political subdivisions within Hill County.

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

The District provides the state mandated exemption to the market value of residence homesteads of \$25,000; the District grants an additional exemption to disabled persons and persons 65 years of age or older of \$10,000.

Ad valorem taxes are levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does tax nonbusiness personal property.

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

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

The District's taxes are collected by Hill County Appraisal District.

The District does permit split payments of taxes and does not give discounts for early payment of taxes.

The District does participate in a tax increment financing zone. The District has granted a value limitation agreement under Chapter 313 of the Texas Tax Code.

The District has entered into a Chapter 313 Agreement with IKO Southwest, Inc. on November 10, 2014 and amended December 12, 2016. The agreement was for IKO Southwest, Inc. to invest capital of \$100,000,000 on a long-term basis for a valuation limitation of \$20,000,000. The District forgoes collecting \$0 in tax revenue; however, that will be offset by the increase in state funding through the FSP funding formula. In addition to the tax abatement, the IKO Southwest, Inc has made other commitment including new qualifying jobs of 25 and non-qualifying jobs of 25.

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

The District does not tax freeport property.

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

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

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

^(b) Taxes delinquent after July 1 incur an additional interest penalty of 20% of the sum of the delinquent taxes plus the penalties and interest to defray attorney collection fees.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1 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 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. 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, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than \$1 per \$100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at \$0.93. Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

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

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

Tier Two

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

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

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school

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

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

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

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

Tax Rate and Funding Equity

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

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. 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 succeeding paragraphs. 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 June 17, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”). Article 2784e-1 limits the District’s annual M&O tax rate based upon a comparison between the District’s outstanding bonded indebtedness and the District’s taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District’s bonded indebtedness is ten percent (10%) (or greater) of the District’s assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the District’s transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District’s bonded indebtedness is outstanding and payable from local ad valorem taxes).

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. 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 “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” herein.

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, 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 not utilized projected values or State assistance to satisfy the \$0.50 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 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, and a failure to adopt a tax rate by such required date will result 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; (ii) the greater of (a) the school district’s M&O tax rate for the 2018 tax year, less the sum of (1) \$1, 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.

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) may not adopt tax rate for the 2019 tax year that exceeds the school district’s Voter-Approval Tax Rate. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds 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 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 IV.W – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 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 TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements, Note IV.X. – Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 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 August 31, 2015. See "CHANGE IN NET ASSETS" in APPENDIX C herein. GASB Statement No. 68 applies only to pension benefits and does not apply to OPB or TRS-Care related liabilities. At the conclusion of the 2018-2019 fiscal year, the District had a net pension liability of \$6,718,229.

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.

INVESTMENT MATTERS

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

Legal 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.

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

Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

LEGAL MATTERS

The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds being purchased, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that such Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Norton Rose Fulbright US LLP as 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 Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. A form of Bond Counsel's opinion is attached as APPENDIX D to this Official Statement. The customary closing papers, including a certificate of the District as described under "OTHER PERTINENT INFORMATION - Authorization of the Official Statement" will also be furnished to such Underwriters. Though Bond Counsel represents investment banking firms such as the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information (other than any financial, technical, or statistical data therein) in this Official Statement appearing under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Use of Proceeds", "Permanent School Fund Guarantee", "DTC Redemption Provisions", and "Default and Remedies" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS", "CONTINUING DISCLOSURE" (except under the subcaption "Compliance with Prior Agreements", as to which no opinion is expressed), "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", and "LEGAL MATTERS" (excluding the last sentence of the first paragraph thereof, as to which no opinion is expressed) and such firm is of the opinion that the information 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. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas, whose legal fees are contingent upon the delivery of the Bonds.

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

Litigation

In the opinion of various officials of the District, except as disclosed in this Official Statement, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds.

The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

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

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the

amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

CONTINUING DISCLOSURE

The District in the Bond Order 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 ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in the Tables in APPENDIX A attached hereto, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to the "Authorized but Unissued Bonds", have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "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 C 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 August 31. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

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

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

the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information from MSRB

Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the “SID”)). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC has entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein 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 holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. 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

During the last five years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule except as follows. The District timely filed its Annual Financial Operating Data for Fiscal Year ended August 31, 2018 on February 26, 2019, but such filing omitted certain tables from the required undertaking. The District filed a notice of such failure on March 3, 2020.

OTHER PERTINENT INFORMATION

Other Obligations

The District has the following additional debt outstanding other than obligations supported by interest and sinking fund taxes as of August 31, 2019:

\$510,000 for 2016 Maintenance Tax Notes, with a 2.64% interest rate. As of August 31, 2019, the balance of the maintenance tax notes was \$264,006.

\$174,047 for a Spirit of Texas Loan for the purchase of 2 buses. The interest rate of the loan is 2.68%. As of August 31, 2019, the outstanding balance of the loan was \$106,668.

\$126,875 for a 2018 Maintenance Tax Notes, with a 3.41% interest rate. As of August 31, 2019, the balance of the maintenance tax notes was \$85,237.

For more information regarding these obligations, see APPENDIX A.

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 Rating

The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding unlimited tax-supported debt of the District including the Bonds is rated "A1" by Moody's without regard to credit enhancement, and "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) The presently outstanding unlimited tax-supported debt of the District rated "A" by S&P Global Ratings ("S&P") without regard to credit enhancement. The District has determined not to apply to S&P for a rating on the Bonds.

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 \$153,683.01. 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.

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

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

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

On November 4, 2019 First Horizon and IberiaBank announced its intention to enter into a merger, pending regulatory approval, creating a leading regional financial services company. The new company will retain the First Horizon name and will have its headquarters in Memphis, TN, while maintaining a significant operating presence in all of the markets in which both companies operate today. The transaction is expected to be completed in the second quarter of 2020, following the satisfaction of closing conditions, including approval by shareholders of both companies. Until all conditions, including regulatory approvals are provided, First Horizon and IberiaBank will continue to be separate, independent companies and until transaction closing, both companies will operate as they do today.

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

The Underwriters and their respective affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments.

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

Use of Audited Financial Statements

James E. Rodgers and Company, P.C., Hamlin, Texas ("Rodgers"), the District's independent auditor, has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Rodgers has not performed any procedures relating to this 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, the Rule.

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 Rule.

In the Bond Order, the District 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.

HILLSBORO INDEPENDENT SCHOOL DISTRICT

/s/ _____ Dr. Christopher Teague
President, Board of Trustees

ATTEST:

/s/ _____ John Sawyer
Secretary, Board of Trustees

APPENDIX A

Selected Financial Information Regarding the District

TABLE 1 – Assessed Valuation⁽¹⁾

2019/20 Total Assessed Valuation	\$1,252,806,309
2019/20 Taxable Assessed Valuation	\$840,601,615
Exemptions	\$329,128,640
Homestead Cap	1,154,918
Productivity Loss	<u>81,921,136</u>
Total (32.90% of Total Assessed Valuation)	\$412,204,694

⁽¹⁾ Source: Hill County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Hill County Appraisal District updates records.

TABLE 2 – Tax Debt Outstanding

Unlimited Tax Debt Outstanding Debt (As of 3/1/20) ⁽¹⁾	\$8,059,164
Plus: The Bonds	26,950,000
Total Direct Debt	\$35,009,164
Less: Interest & Sinking Fund Balance (As of 8/31/19)	<u>(\$815,759)</u>
Net Unlimited Tax Debt Outstanding ⁽²⁾	\$34,193,405
Limited Tax Debt Outstanding (As of 8/31/19)	\$455,911

⁽¹⁾ Source: The District's Audited Financial Report.

TABLE 3 - Estimated Overlapping Debt ⁽¹⁾

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Hill County	1/31/20	\$3,110,000	32.49%	\$1,010,439
Hillsboro, City of	1/31/20	\$10,605,000	100.00%	10,605,000
Estimated (Net) Overlapping Debt				\$11,615,439
The District ⁽²⁾	04/07/2020	\$35,009,164	100.00%	\$35,009,164
Total Direct & Estimated Overlapping Debt				<u>\$46,624,603</u>
Ratio of Direct Debt to 2019 Taxable AV				4.16%
Ratio of Direct and Overlapping Debt to Taxable AV				5.55%
Ratio of Direct and Overlapping Debt to Total AV				3.72%
Per Capita Direct and Overlapping Debt				\$3,863

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bonds.

TABLE 4 - Valuation and Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Taxable Net Assessed Valuation ⁽²⁾	Taxable Net AV Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to AV	Tax Supported Debt Per Capita
2016	12,062	\$597,531,464	\$49,538	\$13,294,164	2.22%	\$1,102
2017	12,062	621,569,457	51,531	12,114,164	19.5%	1,004
2018	12,641	680,485,579	53,832	10,984,164	1.61%	869
2019	12,210	726,082,719	59,466	9,819,164	1.35%	804
2020	12,070	840,601,615	69,644	35,009,164 ⁽³⁾	4.16%	2,901

⁽¹⁾ Source: The Municipal Advisory Council of Texas - Texas Municipal Reports

⁽²⁾ Source: Hill County Appraisal District

⁽³⁾ Includes the Bonds.

TABLE 5 - Tax Rate, Levy and Collection History ⁽¹⁾

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	I&S Fund	Tax Levy	Percent Collections ⁽²⁾	
					Current	Total
2016	\$1.4100	\$1.1500	\$0.2600	\$8,047,575	97.68%	99.50%
2017	1.4100	1.1500	0.2600	8,428,775	97.56%	99.35%
2018	1.4100	1.1500	0.2600	8,743,079	97.72%	98.98%
2019	1.4100	1.1500	0.2600	10,237,766	98.05%	99.64%
2020	1.4099	1.0553 ⁽³⁾	0.3546	N/A	79.17% ⁽⁴⁾	79.17% ⁽⁴⁾

⁽¹⁾ The District's Audited Financial Report.

⁽²⁾ Excludes penalties and interest.

⁽³⁾ See "TAX RATE LIMITATIONS – M&O Tax Rate Limitations regarding maximum M&O tax rates established by the 2019 Legislature

⁽⁴⁾ In the process of collection.

TABLE 6 - Ten Largest Tax Payers ⁽¹⁾

Name of Taxpayer	Type of Property	2019 Net Taxable Assessed Valuation	% of Total 2019 Assessed Valuation
IKO Southwest ⁽²⁾	Manufacturing	\$81,343,060	9.68%
Lone Star NGL Pipeline	Oil & Gas Pipeline	16,923,000	2.19%
Oncor Electric Delivery Co. LLC	Electric Utility/Power Plant	15,524,510	2.01%
Wisembaker Builder Services	Manufacturing	14,997,730	1.94%
Gate Precast Co.	Manufacturing	13,698,970	1.77%
MPT Of Hillsboro LP	Hospital	13,441,920	1.74%
CMH Set Finish Inc.	Wholesale Supplier/Distribution Center	12,409,620	1.61%
Permian Express Partners	Oil & Gas	12,108,520	1.57%
TA Operating LLC	Gas Station	11,823,490	1.53%
HPT TA Properties Trust	Convenience Store	10,821,950	1.40%
TOTALS		\$203,092,770	25.44%

⁽¹⁾ Source: Hill County Appraisal District and District Records

⁽²⁾ As shown in the table above, the top taxpayer in the District currently accounts for 9.68% of the District's tax base, thereby creating a concentration risk for the District. Any adverse development related to IKO Southwest 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 "AD VALOREM TAX PROCEDURES – The Tax Code as Applied to the District." If any major property owner (or a combination of property owners) were to default or be exempt from the payment of taxes, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to, as applicable, enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted) or raise taxes on the balance of property within its boundaries subject to taxation. 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 "THE BONDS – Default and Remedies" and "AD VALOREM TAXATION - The Tax Code as Applied to the District" herein.

TABLE 7 - Tax Adequacy ^{(1) (2)}

2020 Net Principal and Interest Requirements	\$2,810,683
\$0.3404 Tax Rate at 98.24% Collection Produces	\$2,811,047 ⁽³⁾
Average Net Annual Principal and Interest Requirements, 2020-2049	\$2,049,780
\$0.2483 Tax Rate at 98.24% Collection Produces	\$2,050,479 ⁽³⁾
Maximum Net Principal and Interest Requirements, 2025	\$3,817,724
\$0.4624 Tax Rate at 98.24% Collection Produces	\$3,818,532 ⁽³⁾

⁽¹⁾ This table does not take into consideration the state allotment to subsidize exiting debt service as provided under Tier III guidelines

⁽²⁾ Represents debt service payment from 2020 through 2049.

⁽³⁾ Based upon 2019/20 taxable net assessed valuation of \$840,601,615.

TABLE 8 – Authorized but Unissued Bonds

Following the issuance of the Bonds, the District will have no voted but unissued bonds.

TABLE 9 - Tax Supported Debt Service Requirements

Fiscal Year Ending 08/31	Outstanding Debt Service	Plus: The Bonds			New Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$1,425,376	\$1,010,000	\$375,307	\$1,385,307	\$2,810,683
2021	1,430,268	905,000	1,005,050	1,910,050	3,340,318
2022	1,434,302	950,000	959,800	1,909,800	3,344,102
2023	1,427,382	1,000,000	912,300	1,912,300	3,339,682
2024	1,429,856	1,050,000	862,300	1,912,300	3,342,156
2025	1,421,424	1,555,000	841,300	2,396,300	3,817,724
2026	797,290	1,825,000	810,200	2,635,200	3,432,490
2027	1,735,000	-	718,950	718,950	2,453,950
2028	1,735,000	-	718,950	718,950	2,453,950
2029	1,735,000	-	718,950	718,950	2,453,950
2030	1,730,000	-	718,950	718,950	2,448,950
2031	1,730,000	-	718,950	718,950	2,448,950
2032	--	715,000	718,950	1,433,950	1,433,950
2033	--	750,000	683,200	1,433,200	1,433,200
2034	--	790,000	645,700	1,435,700	1,435,700
2035	--	830,000	606,200	1,436,200	1,436,200
2036	--	870,000	564,700	1,434,700	1,434,700
2037	--	905,000	529,900	1,434,900	1,434,900
2038	--	940,000	493,700	1,433,700	1,433,700
2039	--	975,000	456,100	1,431,100	1,431,100
2040	--	1,015,000	417,100	1,432,100	1,432,100
2041	--	1,055,000	376,500	1,431,500	1,431,500
2042	--	1,090,000	344,850	1,434,850	1,434,850
2043	--	1,120,000	312,150	1,432,150	1,432,150
2044	--	1,155,000	278,550	1,433,550	1,433,550
2045	--	1,190,000	243,900	1,433,900	1,433,900
2046	--	1,240,000	196,300	1,436,300	1,436,300
2047	--	1,285,000	146,700	1,431,700	1,431,700
2048	--	1,340,000	95,300	1,435,300	1,435,300
2049	--	1,390,000	41,700	1,431,700	1,431,700
Total	\$18,030,898	\$26,950,000	\$16,512,507	\$43,462,507	\$61,493,405

Average Annual Debt Service Requirement \$2,049,780

Maximum Debt Service Requirement (2025) \$3,817,724

TABLE 10 – Classification of Assessed Valuation by Use Category⁽¹⁾

	Tax Year 2019	Tax Year 2018	Tax Year 2017	Tax Year 2016	Tax Year 2015
Real Property	\$935,272,535	\$869,638,198	\$866,793,282	\$793,660,867	\$733,684,109
Personal Property	315,167,910	329,520,190	209,390,140	195,041,300	202,576,210
Mineral	2,365,864	5,085,568	3,156,246	4,641,662	11,989,101
Gross Value	\$1,252,806,309	\$1,204,243,956	\$1,079,339,668	\$993,343,829	\$948,249,420
Less Exemptions	412,204,694	478,161,237	398,854,089	371,774,372	350,717,956
I&S Net Taxable Value	\$840,601,615	\$726,082,719	\$680,485,579	\$621,569,457	\$597,531,464
313 Exemption for M&O Only	85,951,750	74,713,640	--	--	--
M&O Net Taxable Value	\$754,649,865	\$726,082,719	\$680,485,579	\$621,569,457	\$597,531,464

⁽¹⁾ Source: Hill County Appraisal District

TABLE 11 - Interest and Sinking Fund Budget Projection

Interest & Sinking Fund Balance, 08/31/2019 (Ending) ⁽¹⁾		\$730,468
Estimated Tax Supported Debt Service Requirements for FYE Ended 2020	\$2,810,683	
Projected Interest & Sinking Fund Local Revenue ^{(2) (3)}	\$2,891,350	
Debt Subsidy from Texas Education Agency	\$15,412	
Transfers In/(Out)	\$0	
Projected Interest & Sinking Fund Balance, 08/31/2020 (Ending)		\$826,547
Net Increase/(Decrease) in Fund Balance		\$96,079

⁽¹⁾ The District's Audited Financial Report

⁽²⁾ Based upon 2019/20 taxable net assessed valuation of \$840,601,615

⁽³⁾ Does not include penalties or interest revenue

TABLE 12 - Other Obligations

The District has the following additional debt outstanding other than obligations supported by interest and sinking fund taxes as of August 31, 2019:

\$174,047 for a Spirit of Texas Loan for the purchase of 2 buses. The interest rate of the loan is 2.64%. As of August 31, 2019, the outstanding balance of the loan was \$106,668.

\$126,875 for a 2018 Maintenance Tax Notes, with a 3.41% interest rate. As of August 31, 2019, the balance of the maintenance tax notes was \$85,237.

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Table 13 - Schedule of General Fund Revenues and Expenditure History ⁽¹⁾

For Fiscal Year ended August 31,	2019	2018	2017	2016	2015
REVENUES:					
Total Local and Intermediate Sources	\$9,275,402	\$7,883,640	\$7,269,581	\$7,013,914	\$ 6,901,691
State Program Revenues	9,878,751	11,023,236	10,734,423	10,912,882	10,661,279
Federal Program Revenues	790,837	438,765	265,244	313,630	405,049
Total Revenues	\$19,944,990	\$19,345,641	\$18,269,248	\$18,240,426	\$17,968,019
EXPENDITURES:					
Instruction	\$9,979,552	\$10,086,040	\$9,463,776	\$9,430,555	\$9,313,190
Instructional Resources & Media Services	201,422	226,543	243,245	218,370	264,342
Curriculum and Instructional Staff Development	201,036	187,912	199,968	200,373	374,042
Instructional Leadership	444,849	368,317	274,742	283,190	175,654
School Leadership	1,504,083	1,404,309	1,414,785	1,381,960	1,470,666
Guidance, Counseling & Evaluation Services	381,639	377,318	367,541	352,797	380,126
Health Services	166,036	158,418	160,517	153,413	148,260
Student Transportation	544,448	528,385	550,266	342,839	431,186
Food Services	--	--	--	--	--
Extracurricular Activities	1,455,571	1,065,822	1,027,440	1,016,590	1,023,843
General Administration	931,415	799,359	756,675	781,177	795,270
Facilities Maintenance and Operations	3,010,685	2,404,051	2,277,265	2,208,327	2,180,141
Security Monitoring and Services	79,231	73,681	67,734	79,355	75,891
Data Processing Services	351,491	338,329	334,804	441,781	319,698
Community Services	133,314	131,772	77,887	73,163	77,428
Debt Service:					
Principal on Long Term Debt	\$180,073	\$134,820	\$155,535	\$116,636	\$72,000
Interest on Long Term Debt	18,449	18,891	22,090	22,479	24,178
Debt Service Cost and Fees	--	1,875	2,611	550	550
Capital Outlay:					
Facilities, Acquisition & Construction	--	--	--	--	--
Intergovernmental:					
Payments to Juvenile Justice Alternative Ed Programs	\$19,475	\$27,255	\$15,280	\$10,880	\$49,760
Other Intergovernmental	297,445	289,497	277,372	276,507	338,261
Total Expenses	\$19,900,214	\$18,622,594	\$17,689,533	\$17,390,942	\$17,514,486
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$44,776	\$723,047	\$579,715	\$849,484	\$453,533
Other Financing Sources and (Uses):					
Sale of Real or Personal Property	\$--	\$--	\$--	\$--	\$4,627
Capital Leases	--	--	174,047	118,764	82,729
Non-Current Loans	--	126,875	510,000	--	--
Transfers In	--	--	--	--	100,000
Transfers Out (Use)	(66,000)	--	(37,842)	(177,102)	(1,032,652)
Other Uses	--	--	(510,000)	--	--
Total Other Financing Sources and (Uses):	(\$66,000)	\$126,875	\$136,205	(\$58,338)	(\$845,296)
Net Change in Fund Balances	\$(21,244)	\$849,922	\$715,920	\$791,146	(\$341,763)
Fund Balances - Beginning	\$3,820,426	\$2,970,504	\$2,254,584	\$1,463,438	\$1,855,201
Fund Balances - Ending	\$3,799,202	\$3,820,426	\$2,970,504	\$2,254,584	\$1,463,438

⁽¹⁾ Source: The District's audited financial statements.

Table 14 - General Operating Fund Comparative Balance Sheet ⁽¹⁾

Fiscal Year Ended August 31:	2019	2018	2017	2016	2015
ASSETS:					
Cash & Cash Equivalents	\$4,778,097	\$4,405,220	\$3,045,101	\$2,674,878	\$980,139
Investments – Current	5,393	5,271	5,194	5,161	807,692
Taxes Receivable, Net	487,960	468,931	479,450	483,239	465,861
Allowance for Uncollectible Taxes (Credit)	(43,916)	(42,204)	(43,151)	(43,492)	(41,928)
Due from Other Governments	642,278	766,757	500,981	479,472	360,764
Due from Other Funds	55,555	24,289	54,113	64,724	186,675
Other Receivables	--	--	--	1,000	--
Total Assets	\$5,925,367	\$5,628,264	\$4,041,688	\$3,664,982	\$2,759,203
LIABILITIES:					
Accounts Payable	\$167,215	\$210,903	\$146,784	\$161,842	\$130,376
Payroll Deductions & Withholdings Payable	--	--	--	--	1,454
Accrued Wages Payable	589,471	558,195	412,841	486,801	391,179
Due to Other Funds	--	3,962	3,962	--	20,987
Payable to Other Governments	913,596	596,736	62,597	288,140	321,194
Accrued Expenditures	11,839	11,315	8,700	8,867	6,641
Total Liabilities	\$1,682,121	\$1,381,111	\$634,884	\$945,650	\$871,831
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	\$444,044	\$426,727	\$436,300	\$439,748	\$423,934
Deferred Inflow of Res – Grants & Food Svc.	--	--	--	25,000	--
Total Deferred Inflows of Resources	\$444,044	\$426,727	\$436,300	\$464,748	\$423,934
FUND BALANCES:					
Non-spendable Fund Balances:					
Prepaid Items	\$--	\$--	\$--	\$--	\$--
Restricted Fund Balances:					
Federal/State Funds Grant Restrictions	\$--	\$--	\$297,731	\$--	\$--
Capital Acquisitions & Contractual Oblig.	--	--	--	--	--
Other Restricted Fund Balance	110,524	47,220	123,489	--	47,625
Assigned Fund Balance:					
Construction	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
Claims and Judgments	130,000	130,000	130,000	130,000	130,000
Capital Expenditures for Equipment	100,000	100,000	100,000	100,000	100,000
Unassigned Fund Balance:	\$3,338,678	\$3,423,206	\$2,199,284	\$1,904,584	\$1,065,813
Total Fund Balances	\$3,799,202	\$3,820,426	\$2,970,504	\$2,254,584	\$1,463,438
Total Liabilities, Deferred Inflow of Resources & Fund Balances	\$5,925,367	\$5,628,264	\$4,041,688	\$3,664,982	\$2,759,203

⁽¹⁾ Source: The District's audited financial statements.

TABLE 15 - Current Investments ⁽¹⁾

As of 1/1/2020 the District's investable funds were invested in the following categories:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	99.82%	\$7,225,323	\$7,225,323
Investment Pools	0.18%	12,767	12,767
Total	100%	\$7,238,090	\$7,238,090

⁽¹⁾ District Records.

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APPENDIX B

General Information Regarding the District and its Economy

General Information Regarding the District and its Economy

Located in Hill County, Texas, the Hillsboro Independent School District (the "District") is a 127.86 square mile area that includes the City of Hillsboro. The City of Hillsboro is the principal trade center and the county seat of Hill County and is located approximately 30 miles north of Waco on Interstate Highway 35. The District has a student enrollment of 1,975 and an estimated population of 12,070 within the District's boundaries.

The District is governed by a seven-member Board of Trustees (the "Board"). The Board members are elected at large and serve without compensation. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates five instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums.

Campuses

Elementary Schools	2
Intermediate School	1
Junior High School	1
High School	1
Total	<u>5</u>

Enrollment

<u>School Year</u>	<u>Total Enrollment</u>
2011/2012	1,990
2012/2013	1,976
2013/2014	1,997
2014/2015	2,018
2015/2016	1,999
2016/2017	2,105
2017/2018	2,027
2018/2019	2,009
2019/2020	1,975 ⁽¹⁾

Source: The District.

⁽¹⁾ Enrollment as of October 25, 2020

Employment of the District

Teachers	168
Auxiliary Personnel	22
Teachers' Aides & Secretaries	64
Administrators	22
Other (Counselors, RNs, Librarians)	18
Total	<u>294</u>

APPENDIX C

Annual Financial Report

The information contained in this appendix consists of the Hillsboro Independent School District Annual Financial Report (the "Report") for the fiscal year ended August 31, 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.

HILLSBORO
INDEPENDENT SCHOOL DISTRICT
HILL COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2019



**HILLSBORO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2019**

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HILLSBORO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

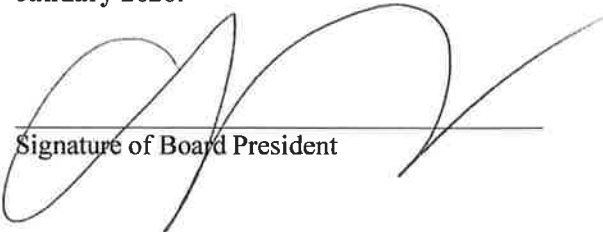
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CERTIFICATE OF BOARD

Hillsboro Independent School District	Hill	109904
Name of School District	County	County – District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended **August 31, 2019**, at a meeting of the Board of Trustees of such school district on the **13th** day of **January 2020**.



Signature of Board President



Signature of Board Secretary

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

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 13, 2020

Report on Financial Statements Issued in Accordance with Government Auditing Standards and a Single Audit Accompanied by Required Supplementary Information, Supplementary Information, and Other Information

Independent Auditor's Report

**To the Board of Trustees
Hillsboro Independent School District
Hillsboro, Texas 76645**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

James E. Rodgers and Company, P.C.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hillsboro Independent School District, as of August 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in notes to the financial statements, in the prior year 2018, the District adopted new accounting guidance prescribed by GASB 75 for its other post-employment benefit plan (OPEB), a multiple-employer, cost-sharing, health insurance plan for retirees that has a special funding situation. Because GASB 75 implements new measurement criteria and reporting provisions, significant information has been included in the Government Wide Statements. Exhibit A-1 discloses the District's OPEB liability and some deferred resource outflows and deferred resource inflows related to the District's OPEB plan. Exhibit B-1 includes adjustments to the District's OPEB Expense. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and GASB 68 and 75 schedules for pension and OPEB liabilities and contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsboro Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the Texas Education Agency required information in conformity with laws and regulations of the State of Texas in Exhibits J-1 through J-3, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the Texas Education Agency required information in conformity with laws and regulations of the state of Texas in Exhibits J-1 through J-3, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

James E. Rodgers and Company, P.C.

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the Texas Education Agency required information 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this section.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2020, on our consideration of the Hillsboro Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hillsboro Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsboro Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

James E. Rodgers and Company

James E. Rodgers and Company, P.C.

HILLSBORO INDEPENDENT SCHOOL DISTRICT

121 East Franklin Street
Hillsboro, Texas 76645



Phone: 254-582-8585 * Fax: 254-582-4165

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administration of **Hillsboro Independent School District**, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Highlights of Current Fiscal Year Finances

District's Total Net Position at the End of the Year	\$	(3,201,944)
Total District Revenues for the Current Fiscal Year	\$	25,557,492
Total District Expenses for the Current Fiscal Year	\$	23,952,300
Fund Balance in the General Fund at the End of Year	\$	3,799,202

Changes in the District's Finances from the Previous Fiscal Year

	Increase (Decrease)	
	\$	%
<u>Change in Net Position:</u>		
Change in the District's Total Net Position	\$ 1,605,192	-33.39%
<u>Revenue Changes:</u>		
Change in the District's Total Revenues	\$ 4,702,867	22.55%
Change in the District's Property Tax Revenues	\$ 1,605,996	17.04%
Change in the District's State Aid Formula Grants	\$ (2,311,596)	-22.56%
Change in Operating Grants and Contributions	\$ 1,705,607	49.63%
<u>Expense Changes:</u>		
Change in the District's Total Expenses	\$ 7,308,258	43.91%
<u>Other Information:</u>		
Change in the District's General Fund Balance	\$ (21,224)	-0.56%
Excess (Deficit) of Actual Revenue over Budgeted Revenue	\$ (269,525)	-1.33%

USING THIS ANNUAL REPORT

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district. The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

In the Statement of Net Position and the Statement of Activities, we combine the District into one kind of activity (all governmental activities).

Governmental activities—All 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 with the Governmental Funds Balance Sheet (Exhibit C-1) and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the “No Child Left Behind” act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds (governmental and proprietary) use different accounting approaches.

Governmental funds—Most of the District's basic services are reported in governmental funds. These funds 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 a reconciliation schedule following each of the fund financial statements.

Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds which the District does not have at present) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds in Exhibits D-1, D-2, and D-3) report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance and day care programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

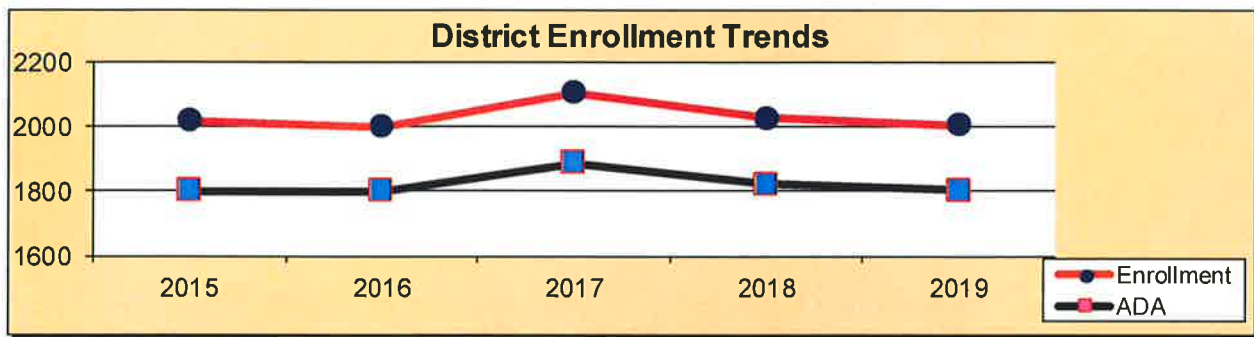
The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net position (Exhibit E-1). We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

State funding in Texas is based upon the District's average daily attendance, thus the District's revenue is highly dependent on enrollment trends. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special, bilingual, and compensatory education programs. The demographics of the District and the types of coursework students pursue are continuing to evolve in the District. The following chart details the enrollment trends of the District.

ENROLLMENT TRENDS

Year	Enrollment	ADA
2015	2018	1801.5
2016	1999	1801.5
2017	2105	1888.1
2018	2027	1823.8
2019	2006	1802.8



The following table indicates the net position of the District at the end of the previous and current years.

Table I
HILLSBORO INDEPENDENT SCHOOL DISTRICT
Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Current and other assets	\$ 7,159,428	\$ 7,531,425	\$ -	\$ -	\$ 7,159,428	\$ 7,531,425
Capital assets	19,707,991	20,061,905	-	-	19,707,991	20,061,905
Deferred Outflows	1,454,378	4,217,215	-	-	1,454,378	4,217,215
Total assets & deferred outflows	\$ 28,321,797	\$ 31,810,545	\$ -	\$ -	\$ 28,321,797	\$ 31,810,545
Long-term liabilities	\$ 15,493,117	\$ 13,777,846	\$ -	\$ -	\$ 15,493,117	\$ 13,777,846
Other liabilities	1,629,299	1,908,199	-	-	1,629,299	1,908,199
Net pension liability	3,852,183	6,718,229	-	-	3,852,183	6,718,229
Net OPEB liability	8,129,377	9,024,675	-	-	8,129,377	9,024,675
Deferred Inflows	4,024,957	3,583,540	-	-	4,024,957	3,583,540
Total liabilities & deferred inflows	\$ 33,128,933	\$ 35,012,489	\$ -	\$ -	\$ 33,128,933	\$ 35,012,489
Net Position:						
Net Investment in capital assets	\$ 4,276,627	\$ 6,337,747	\$ -	\$ -	\$ 4,276,627	\$ 6,337,747
Restricted	1,240,803	1,386,902	-	-	1,240,803	1,386,902
Unrestricted	(10,324,566)	(10,926,593)	-	-	(10,324,566)	(10,926,593)
Total Net Position	\$ (4,807,136)	\$ (3,201,944)	\$ -	\$ -	\$ (4,807,136)	\$ (3,201,944)

The following table indicates the changes in net position of the District during the previous and current years.

Table II HILLSBORO INDEPENDENT SCHOOL DISTRICT Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Program Revenues:						
Charges for Services	\$ 590,961	\$ 478,752	\$ -	\$ -	\$ 590,961	\$ 478,752
Operating grants & contributions	3,436,467	5,142,074	-	-	3,436,467	5,142,074
Effect of GASB 75 negative accrual	(3,110,960)	-	-	-	(3,110,960)	-
General Revenues:						
Maintenance & operations taxes	7,685,346	8,977,771	-	-	7,685,346	8,977,771
Debt service taxes	1,737,934	2,051,505	-	-	1,737,934	2,051,505
State aid - formula grants	10,247,379	7,935,783	-	-	10,247,379	7,935,783
Grants and contributions not restricted to specific functions	-	-	-	-	-	-
Investment earnings	104,867	168,503	-	-	104,867	168,503
Miscellaneous	162,631	803,104	-	-	162,631	803,104
Total Revenues	\$ 20,854,625	\$ 25,557,492	\$ -	\$ -	\$ 20,854,625	\$ 25,557,492
Expenses						
Instruction, curriculum & media services	\$ 8,484,410	\$ 13,434,148	\$ -	\$ -	\$ 8,484,410	\$ 13,434,148
Instructional & school leadership	1,150,472	2,073,664	-	-	1,150,472	2,073,664
Student support services	746,046	1,084,640	-	-	746,046	1,084,640
Food Services	1,272,491	1,216,122	-	-	1,272,491	1,216,122
Extracurricular activities	1,011,297	1,354,256	-	-	1,011,297	1,354,256
General administration & data processing	772,891	1,352,031	-	-	772,891	1,352,031
Plant maintenance & security	2,138,168	2,486,167	-	-	2,138,168	2,486,167
Community Services	247,781	151,288	-	-	247,781	151,288
Interest & fees on long term debt	503,734	483,064	-	-	503,734	483,064
Other business-type activities & intergovernmental	316,752	316,920	-	-	316,752	316,920
Total Expenses	\$ 16,644,042	\$ 23,952,300	\$ -	\$ -	\$ 16,644,042	\$ 23,952,300
Increase in net position before transfers and special items	\$ 4,210,583	\$ 1,605,192	\$ -	\$ -	\$ 4,210,583	\$ 1,605,192
Transfers	-	-	-	-	-	-
Extraordinary & special items	-	-	-	-	-	-
Prior period adjustment - TRS-OPEB Care plan	(14,254,813)	-	-	-	(14,254,813)	-
Net position at 9/1	5,237,094	(4,807,136)	-	-	5,237,094	(4,807,136)
Total Net Position	\$ (4,807,136)	\$ (3,201,944)	\$ -	\$ -	\$ (4,807,136)	\$ (3,201,944)

An analysis of the change in the net position for governmental activities is as follows:

Excess of Revenues Over Expenditures for Governmental Funds	\$ 41,615
Net Gain (Loss) of Internal Service Funds	43,285
Current Year Purchases of Capital Assets	1,353,640
Current Year Debt Principal Payments	1,940,073
Depreciation	(999,727)
Other Modified to Full Accrual Revenue Adjustments	(209,011)
Net Adjustment to Pension Expense per GASB 68	(507,935)
Net Adjustment for OPEB plan required by GASB 75	(56,748)
Change in Net Position of Governmental Activities	\$ 1,605,192

THE DISTRICT'S FUNDS

A financial summary of the District's funds for the current year is as follows:

Governmental Fund Financial Statements					
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Revenues	\$ 19,944,990	\$ 2,941,242	\$ 2,078,782	\$ -	\$ 24,965,014
Expenditures	(19,900,214)	(2,963,694)	(1,993,491)	-	(24,857,399)
Other Financing Sources	-	-	-	-	-
Other Financing Uses	(66,000)	-	-	-	(66,000)
Net Change in Fund Balance	\$ (21,224)	\$ (22,452)	\$ 85,291	\$ -	\$ 41,615
Beginning Fund Balance	3,820,426	299,493	730,468	83,750	4,934,137
Ending Fund Balance					
All Governmental Funds	\$ 3,799,202	\$ 277,041	\$ 815,759	\$ 83,750	\$ 4,975,752

The District modified its budget several times during the year resulting in a net increase in budgeted expenditures between the original and final budget in the District's General Fund. Significant amendments were made during the current year as detailed in Exhibit G-1.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the current year, the District had invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, food services and maintenance. This year's major additions and the net change in total capital assets are as follows:

Culinary Room Improvements	\$ 155,016
Track Resurface	189,534
Franklin Gym Repairs	22,200
High School Gym Floor/Roof	252,433
Field House Improvements	14,736
Library Carpet	10,573
Bleachers	19,989
Cafeteria Furniture	47,567
Yocham Land 49.708 Acres	474,624
2019 Ford F250 Pickup	39,310
2020 Blue Bird 77 Passenger Bus	93,501
2018 Ford Transit	34,157
TOTAL	\$ 1,353,640
Total Additions	\$ 1,353,640
Total Deletions	67,116
Net Change	\$ 1,286,524

The District's next fiscal year general fund capital budget indicates significant capital outlay to begin construction for a new campus facility.

Debt

The District's long-term debt at the end of the current year is as follows:

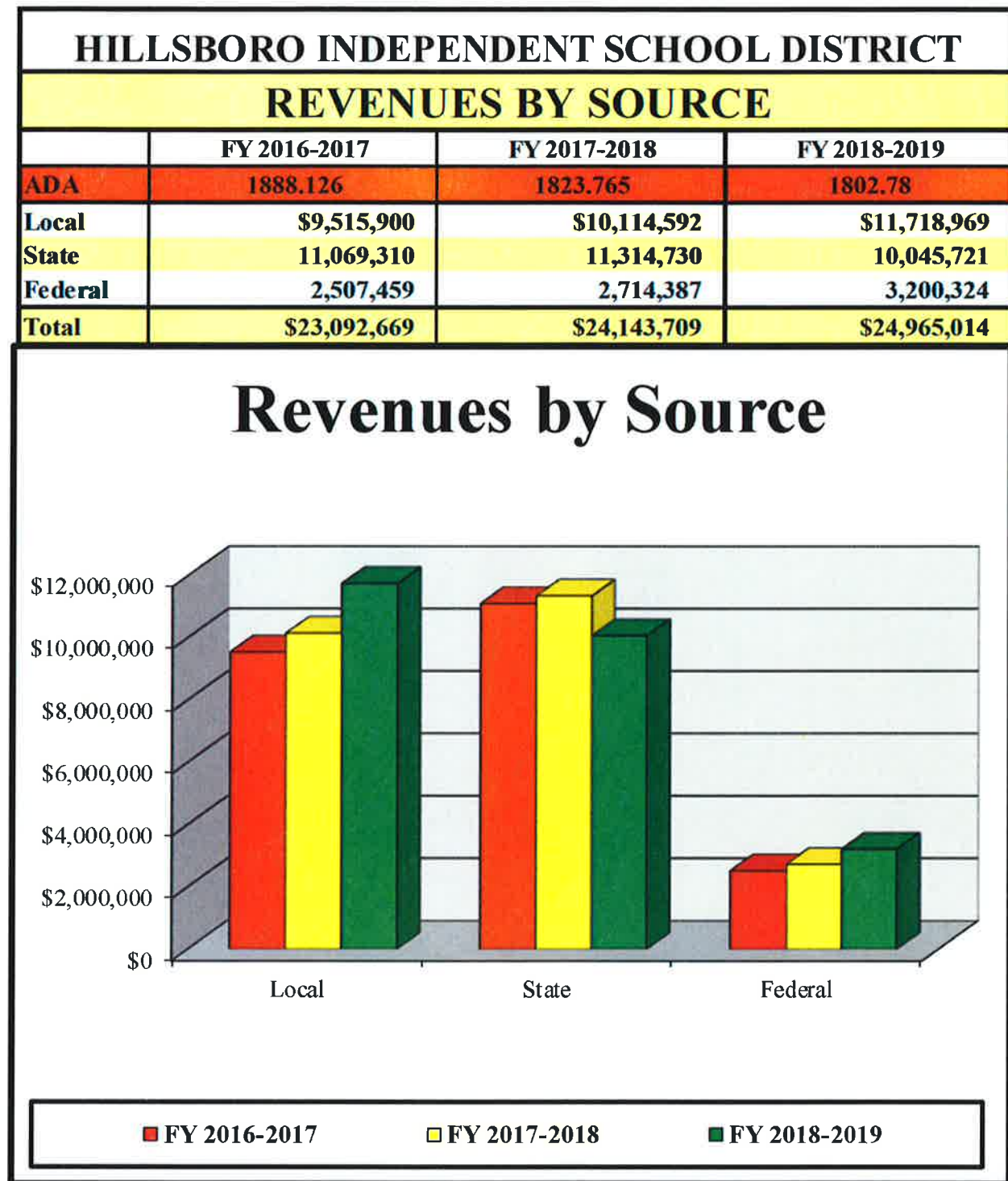
	Interest Rate on Issue	Amounts Original Issue	Interest Current Year	Outstanding 8/31/2019	Next Year's Total Principal and Interest Requirement
2001 CAB Bonds & Accreted Interest	3.75%-5.50%	\$ 114,164	\$ -	\$ 114,164	\$ -
2014 Tax Refunding Bonds	2.00%-3.00%	\$ 7,070,000	141,000	4,330,000	694,900
2015 Tax Refunding Bonds	3.00%-4.50%	\$ 7,100,000	91,922	3,615,000	730,476
2015 Phone System Capital Lease	4.44%	\$ 118,764	2,959	44,438	23,753
2016 Maintenance Tax Notes	2.64%	\$ 510,000	9,181	264,006	95,899
Spirit of Texas Loan - 2 Buses	2.68%	\$ 174,047	3,136	106,668	37,194
2018 Maintenance Tax Notes	3.41%	\$ 126,875	3,173	85,237	44,820
Totals			\$ 251,371	\$ 8,559,513	\$ 1,627,042

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

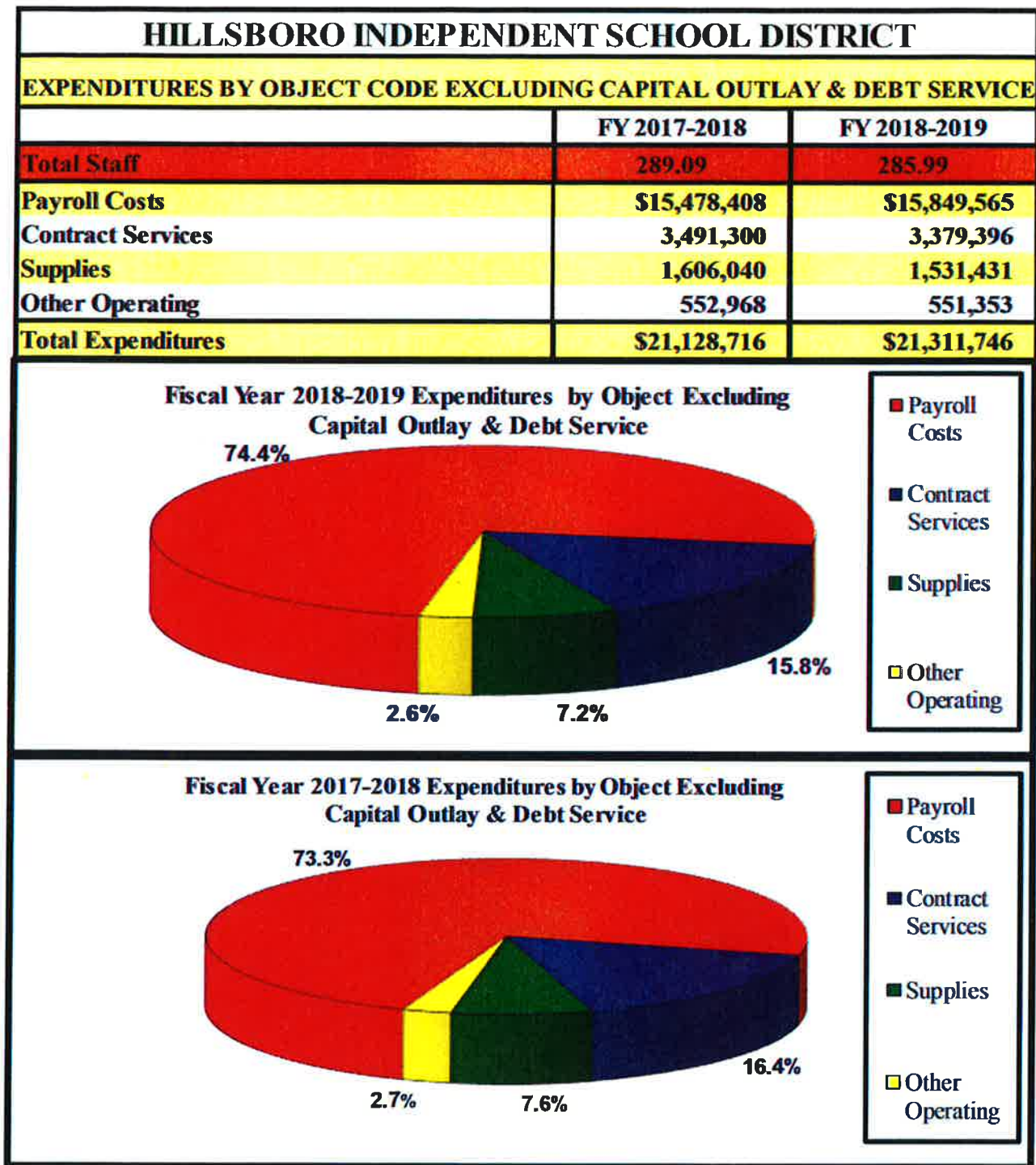
The District's elected and appointed officials considered many factors when setting the next fiscal year budget and tax rates. Significant changes to the fiscal year 2020 budget include state funding and teacher compensation increases provided for by House Bill 3 as adopted by 86th Texas Legislature by the District. Those changes along with expected student enrollment were implicit in the expected revenue and expenditures when adopting the budget for next year. A summary of the subsequent fiscal year budget for funds legally required to be budgeted is as follows:

Fiscal Year 2019 - 2020 Adopted Budget				
	General Fund	Child Nutrition Fund	Debt Service Fund	TOTALS
Revenues	\$ 18,902,350	\$ 1,305,000	\$ 2,832,000	\$ 23,039,350
Expenditures	(19,022,350)	(135,000)	(2,832,000)	(21,989,350)
Other Financing Sources	-	-	-	-
Other Financing Uses	(30,000)	-	-	(30,000)
Net Change in Fund Balance	\$ (150,000)	\$ 1,170,000	\$ -	\$ 1,020,000
Beginning of Year Fund Balance	3,799,202	199,996	815,759	4,814,957
Projected End of Year Fund Balance	\$ 3,649,202	\$ 1,369,996	\$ 815,759	\$ 5,834,957

The following graph indicates the District's revenues by source for the last three years.



The following graph indicates the District's operating expenditures by object for the last two years.



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 Hillsboro Independent School District, 121 East Franklin Street, Hillsboro, Texas 76645; (254) 582-8585.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data		Primary Government
Control		Governmental
Codes		Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 6,134,438
1120	Current Investments	12,689
1220	Property Taxes - Delinquent	594,906
1230	Allowance for Uncollectible Taxes	(53,541)
1240	Due from Other Governments	839,518
1290	Other Receivables, Net	3,415
	Capital Assets:	
1510	Land	1,844,184
1520	Buildings, Net	17,226,586
1530	Furniture and Equipment, Net	991,135
1000	Total Assets	27,593,330
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred Charge for Refunding	44,246
1705	Deferred Outflow Related to TRS Pension	3,414,935
1706	Deferred Outflow Related to TRS OPEB	758,034
1700	Total Deferred Outflows of Resources	4,217,215
LIABILITIES		
2110	Accounts Payable	222,477
2160	Accrued Wages Payable	678,883
2180	Due to Other Governments	971,874
2200	Accrued Expenses	34,965
	Noncurrent Liabilities:	
2501	Due Within One Year	1,403,886
2502	Due in More Than One Year	12,373,960
2540	Net Pension Liability (District's Share)	6,718,229
2545	Net OPEB Liability (District's Share)	9,024,675
2000	Total Liabilities	31,428,949
DEFERRED INFLOWS OF RESOURCES		
2602	Deferred Resource Inflow State & Federal Grants	21,280
2605	Deferred Inflow Related to TRS Pension	368,200
2606	Deferred Inflow Related to TRS OPEB	3,194,060
2600	Total Deferred Inflows of Resources	3,583,540
NET POSITION		
3200	Net Investment in Capital Assets	6,337,747
3820	Restricted for Federal and State Programs	199,996
3850	Restricted for Debt Service	915,587
3860	Restricted for Capital Projects	83,750
3870	Restricted for Campus Activities	187,569
3900	Unrestricted	(10,926,593)
3000	Total Net Position	\$ (3,201,944)

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 12,971,064	\$ 57,735	\$ 3,176,431	\$ (9,736,898)
12 Instructional Resources and Media Services	210,000	-	11,532	(198,468)
13 Curriculum and Instructional Staff Development	253,084	-	55,202	(197,882)
21 Instructional Leadership	470,545	-	34,615	(435,930)
23 School Leadership	1,603,119	-	132,754	(1,470,365)
31 Guidance, Counseling and Evaluation Services	413,020	-	39,576	(373,444)
33 Health Services	177,310	-	17,810	(159,500)
34 Student (Pupil) Transportation	494,310	-	28,892	(465,418)
35 Food Services	1,216,122	242,710	1,259,418	286,006
36 Extracurricular Activities	1,354,256	50,931	184,555	(1,118,770)
41 General Administration	979,209	-	54,017	(925,192)
51 Facilities Maintenance and Operations	2,406,936	460	83,249	(2,323,227)
52 Security and Monitoring Services	79,231	-	-	(79,231)
53 Data Processing Services	372,822	-	37,256	(335,566)
61 Community Services	151,288	126,916	26,767	2,395
72 Debt Service - Interest on Long-Term Debt	482,495	-	-	(482,495)
73 Debt Service - Bond Issuance Cost and Fees	569	-	-	(569)
95 Payments to Juvenile Justice Alternative Ed. Prg.	19,475	-	-	(19,475)
99 Other Intergovernmental Charges	297,445	-	-	(297,445)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 23,952,300	\$ 478,752	\$ 5,142,074	(18,331,474)

Data Control Codes			
	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		8,977,771
DT	Property Taxes, Levied for Debt Service		2,051,505
SF	State Aid - Formula Grants		7,935,783
IE	Investment Earnings		168,503
MI	Miscellaneous Local and Intermediate Revenue		803,104
TR	Total General Revenues		19,936,666
CN	Change in Net Position		1,605,192
NB	Net Position - Beginning		(4,807,136)
NE	Net Position--Ending		\$ (3,201,944)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 4,778,097	\$ 858,526	\$ 386,713	\$ 6,023,336
1120 Investments - Current	5,393	7,296	-	12,689
1220 Property Taxes - Delinquent	487,960	106,946	-	594,906
1230 Allowance for Uncollectible Taxes	(43,916)	(9,625)	-	(53,541)
1240 Due from Other Governments	642,278	8,215	189,025	839,518
1260 Due from Other Funds	55,555	-	-	55,555
1290 Other Receivables	-	-	3,415	3,415
1000 Total Assets	<u>\$ 5,925,367</u>	<u>\$ 971,358</u>	<u>\$ 579,153</u>	<u>\$ 7,475,878</u>
LIABILITIES				
2110 Accounts Payable	\$ 167,215	\$ -	\$ 55,260	\$ 222,475
2160 Accrued Wages Payable	589,471	-	78,299	667,770
2170 Due to Other Funds	-	-	55,555	55,555
2180 Due to Other Governments	913,596	58,278	-	971,874
2200 Accrued Expenditures	11,839	-	7,968	19,807
2000 Total Liabilities	<u>1,682,121</u>	<u>58,278</u>	<u>197,082</u>	<u>1,937,481</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	444,044	97,321	-	541,365
2602 Unavailable State and Local Revenue	-	-	21,280	21,280
2600 Total Deferred Inflows of Resources	<u>444,044</u>	<u>97,321</u>	<u>21,280</u>	<u>562,645</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	199,996	199,996
3470 Capital Acquisition and Contractual Obligation	-	-	83,750	83,750
3480 Retirement of Long-Term Debt	-	815,759	-	815,759
3490 Other Restricted Fund Balance	110,524	-	77,045	187,569
Assigned Fund Balance:				
3550 Construction	120,000	-	-	120,000
3560 Claims and Judgments	130,000	-	-	130,000
3570 Capital Expenditures for Equipment	100,000	-	-	100,000
3600 Unassigned Fund Balance	3,338,678	-	-	3,338,678
3000 Total Fund Balances	<u>3,799,202</u>	<u>815,759</u>	<u>360,791</u>	<u>4,975,752</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 5,925,367</u>	<u>\$ 971,358</u>	<u>\$ 579,153</u>	<u>\$ 7,475,878</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 4,975,752
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and staff daycare, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase (decrease) net position.	84,831
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$42,747,288 and the accumulated depreciation was \$23,039,297. 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 (decrease) net position.	4,230,247
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.	3,293,713
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount \$3,414,935, a deferred resource inflow in the amount of \$368,200, and a net pension liability in the amount of \$6,718,229. This resulted in a decrease in net position.	(3,671,494)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$758,034, a deferred resource inflow in the amount of \$3,194,060, and a net OPEB liability in the amount of \$9,024,675. This resulted in a decrease in net position.	(11,460,701)
6 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(999,727)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	345,435
19 Net Position of Governmental Activities	\$ (3,201,944)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 9,275,402	\$ 2,060,878	\$ 382,689	\$ 11,718,969
5800 State Program Revenues	9,878,751	17,904	149,066	10,045,721
5900 Federal Program Revenues	790,837	-	2,409,487	3,200,324
5020 Total Revenues	19,944,990	2,078,782	2,941,242	24,965,014
EXPENDITURES:				
Current:				
0011 Instruction	9,979,552	-	1,533,040	11,512,592
0012 Instructional Resources and Media Services	201,422	-	-	201,422
0013 Curriculum and Instructional Staff Development	201,036	-	41,796	242,832
0021 Instructional Leadership	444,849	-	-	444,849
0023 School Leadership	1,504,083	-	-	1,504,083
0031 Guidance, Counseling and Evaluation Services	381,639	-	5,159	386,798
0033 Health Services	166,036	-	-	166,036
0034 Student (Pupil) Transportation	544,448	-	-	544,448
0035 Food Services	-	-	1,259,418	1,259,418
0036 Extracurricular Activities	1,455,571	-	123,956	1,579,527
0041 General Administration	931,415	-	325	931,740
0051 Facilities Maintenance and Operations	3,010,685	-	-	3,010,685
0052 Security and Monitoring Services	79,231	-	-	79,231
0053 Data Processing Services	351,491	-	-	351,491
0061 Community Services	133,314	-	-	133,314
Debt Service:				
0071 Principal on Long-Term Debt	180,073	1,760,000	-	1,940,073
0072 Interest on Long-Term Debt	18,449	232,922	-	251,371
0073 Bond Issuance Cost and Fees	-	569	-	569
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	19,475	-	-	19,475
0099 Other Intergovernmental Charges	297,445	-	-	297,445
6030 Total Expenditures	19,900,214	1,993,491	2,963,694	24,857,399
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	44,776	85,291	(22,452)	107,615
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(66,000)	-	-	(66,000)
1200 Net Change in Fund Balances	(21,224)	85,291	(22,452)	41,615
0100 Fund Balance - September 1 (Beginning)	3,820,426	730,468	383,243	4,934,137
3000 Fund Balance - August 31 (Ending)	\$ 3,799,202	\$ 815,759	\$ 360,791	\$ 4,975,752

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

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 41,615
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and staff daycare, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.	43,285
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to increase (decrease) net position.	3,293,713
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.	(999,727)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(209,011)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$431,147. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$411,174. 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 \$527,908. The net result is a decrease in the change in net position.	(507,935)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$126,920. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling (\$124,684). 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 \$58,984. The net result is an increase in the change in net position.	(56,748)
Change in Net Position of Governmental Activities	\$ 1,605,192

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

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

EXHIBIT D-1

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 111,102
Total Assets	<u>111,102</u>
LIABILITIES	
Current Liabilities:	
Accrued Wages Payable	11,113
Accrued Expenses	<u>15,158</u>
Total Liabilities	<u>26,271</u>
NET POSITION	
Restricted for Other Purposes	<u>84,831</u>
Total Net Position	<u><u>\$ 84,831</u></u>

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

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

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 165,360
State Program Revenues	9,627
Total Operating Revenues	174,987
OPERATING EXPENSES:	
Payroll Costs	196,828
Supplies and Materials	874
Total Operating Expenses	197,702
Income Before Transfers	(22,715)
Transfer In	66,000
Change in Net Position	43,285
Total Net Position - September 1 (Beginning)	41,546
Total Net Position - August 31 (Ending)	\$ 84,831

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

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

	Governmental Activities -
	Total
	Internal Service Funds
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 144,456
Cash Payments to Employees for Services	(167,448)
Cash Payments for Insurance Claims	(22,277)
Cash Payments for Suppliers	(874)
Net Cash Used for Operating Activities	<u>(46,143)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital Contributed by Other Funds	<u>66,000</u>
Net Increase in Cash and Cash Equivalents	19,857
Cash and Cash Equivalents at Beginning of Year	<u>91,245</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 111,102</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (22,715)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accrued Wages Payable	(2,469)
Increase (decrease) in Accrued Expenses	(20,959)
Net Cash Used for Operating Activities	<u><u>\$ (46,143)</u></u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ -
Restricted - Cash and Cash Equivalents on Balance	<u>111,102</u>
Total Cash and Cash Equivalents	<u><u>\$ 111,102</u></u>

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

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

	Private Purpose Trust Funds	Agency Funds	Fiduciary Component Unit
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 78,367	\$ -
Restricted Assets	57,987	-	228,242
Total Assets	57,987	\$ 78,367	228,242
LIABILITIES			
Due to Student Groups	-	\$ 78,367	-
Total Liabilities	-	\$ 78,367	-
NET POSITION			
Restricted for Scholarships	57,987		-
Restricted for Other Purposes	-		228,242
Total Net Position	\$ 57,987		\$ 228,242

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

HILLSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT E-2

	Private Purpose Trust Funds	Fiduciary Component Unit
ADDITIONS:		
Local and Intermediate Sources	\$ 4,305	\$ 65,016
Total Additions	<u>4,305</u>	<u>65,016</u>
DEDUCTIONS:		
Professional and Contracted Services	875	-
Supplies and Materials	4,100	3,217
Other Operating Costs	-	42,323
Total Deductions	<u>4,975</u>	<u>45,540</u>
Change in Net Position	(670)	19,476
Total Net Position - September 1 (Beginning)	<u>58,657</u>	<u>208,766</u>
Total Net Position - August 31 (Ending)	<u>\$ 57,987</u>	<u>\$ 228,242</u>

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

HILLSBORO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hillsboro 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 accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also 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.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity as amended by GASB Statement 61. The only component unit included within the reporting entity is the Hillsboro Educational Foundation which is included as a fiduciary component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

Debt Service Fund - The District did maintain major debt service governmental funds during the current year.

The District does not report any major enterprise funds.

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

Governmental Funds:

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

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund when applicable.

Capital Projects Funds – Proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund when applicable.

Proprietary Funds:

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis (such as workers' compensation and child care) are accounted for in an internal service fund.

Fiduciary Funds:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. When applicable, the District maintains a private purpose trust fund to provide scholarships for students that have graduated from the District.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds including funds used to account for student activities.

There are no balances due to the internal service funds from the general fund. When amounts do exist, they are the result of obligations made to maintain capital for the operation of each internal service fund for such activities as self-insurance; the balance is not scheduled to be collected in the subsequent year.

All remaining balances, if any, resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the current year, the District did not make a one-time transfer of funds from the general fund to the debt service fund to subsidize, in part, the District's obligation of interest and sinking fund requirements

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. The District reports inventories of supplies using the first-in, first-out inventory cost method. The supplies include consumable maintenance, instructional, office, athletic, and transportation items. Under the purchase method, supplies are recorded as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Department of Agriculture and recorded as revenue and expenditures when received. Material inventories (if any) including food commodities are recorded as an asset and a corresponding amount of expenditures are reduced at year-end.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

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

ASSETS	YEARS
Buildings	50
Buildings and Improvements	40
Infrastructure	40
Vehicles	10
Office Equipment	10
Computer Equipment	10

6. Since Internal Service Funds in the District support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. Restricted assets, if applicable, of the District are limited to cash and certificates of deposit which have been gifted to the District with the stipulation that only the earnings are available for current and future scholarship recipients.
8. The Districts that participate in self-funded workers' compensation programs execute inter-local agreements that define the responsibilities of the parties. The program, if applicable, provides statutory workers' compensation benefits to its members and their injured employees.
9. Net Position and Fund Balances:

Government-wide and Proprietary Fund Net Position-

Government-wide and proprietary fund net positions are divided into three components:

- Net investment in capital assets—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position—consist of assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted—all other net position is reported in this category.

Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows-

- Non-spendable—Amounts that cannot be spent either because they are in a 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 the District's state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees' ordinance.
- Assigned—Amounts that are designated by the Superintendent for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Trustees.
- Unassigned—All amounts not included in other spendable classifications.

10. Use of Restricted Resources:

When an expenditure/expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expenditure/expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

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

12. Investment income reported in one fund has not been assigned directly to another fund by the District.

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

14. Deferred Outflows of Resources:

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The deferred outflow of resources reported in this year's government-wide financial statements arise from inclusion of the GASB 68 Liability for the unfunded portion of the TRS Retirement and GASB 75 Liability. No deferred outflows of resources affect the governmental funds financial statements in the current year.

15. Deferred Inflows of Resources:

The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District will not recognize the related revenues until a future event occurs. The District has only three types of items which occur because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes, private grants, and prepaid meals are reported in the governmental funds balance sheet. The District only reported deferred inflows of resources in its government-wide or proprietary fund financial statements for the current year for the inclusion of the GASB 68 Liability for the unfunded portion of the TRS Retirement, GASB 75 liabilities and prepaid meals.

16. 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.

17. 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 resource measurement focus and full accrual basis of accounting. This includes for purposes of measuring the new OPEB liability, deferred outflows of resources and deferred inflows or 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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

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

Capital Assets at the Beginning of the Year	Historical Cost	Accumulated Depreciation	Net Value at Beginning of Year	Change in Net Position
Land	\$ 1,369,560	\$ -	\$ 1,369,560	
Buildings and Improvements	37,674,157	(20,290,564)	17,383,593	
Furniture and Equipment	3,703,571	(2,748,733)	954,838	
Change in Net Position				\$ 19,707,991
Long-term Liabilities and Deferred Outflows and Inflows at the Beginning of the Year			Payable at Beginning of Year	
Bonds Payable			\$ 9,819,164	
Accreted Interest on CAB Bonds			4,571,303	
Add Unamortized Bond Premium / Discount			411,041	
Notes and Capital Leases Payable			680,423	
Accrued Interest - Bonds, Notes, and Capital Leases			11,186	
Deferred Resource of Outflows for Bond Refunding			(50,567)	
Deferred Resource of Inflows			35,194	
Change in Net Position				15,477,744
Net Adjustment to Net Position				\$ 4,230,247

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position shown in Exhibit C-2 and Exhibit C-4. The details of this adjustment are as follows:

	Amount	Adjustments To Changes in Net Position	Adjustments to Net Position
Current Year Capital Outlay			
Land	\$ 474,624		
Buildings & Improvements	644,492		
Furniture & Equipment	234,524		
Total Capital Outlay	1,353,640	1,353,640	1,353,640
Debt Principal Payments			
Bond Principal	1,760,000		
Note Principal Payments	159,280		
Capital Lease Payments	20,793		
Total Principal Payments	1,940,073	1,940,073	1,940,073
Total Adjustment to Net Position		\$ 3,293,713	\$ 3,293,713

Another element of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
Adjustments to Revenue, Deferred Inflows, Beg. Net Position:			
Beg. of Year Unearned Tax Revenue/Internal Service	\$ 519,252		\$ 519,252
Property tax adjustments to convert from the modified accrual basis to the full accrual basis of accounting	22,113	22,113	22,113
Other Revenue/Expense Adjustments	(1)	(1)	(1)
Deferred Inflow of Resources	35,194		35,194
Reclassify Proceeds of Bonds, Loans & Capital Leases:			
New Bond Issue	\$ -	-	-
Discount (Premium) or Deferred Charge on Issuance of Bonds	-	-	-
New Loans / Capital Leases Issued	-	-	-
Reclassify Certain Expenditures to Full Accrual From Modified Accrual:			
Deferred Charge on Refunding Amortization	\$ (6,321)	(6,321)	(6,321)
Adjust Interest and Fees on Long-term Debt	1,742	1,742	1,742
Amortization of Bond Premium	44,193	44,193	44,193
Accretion of Interest on CAB Bonds	(270,737)	(270,737)	(270,737)
Totals		\$ (209,011)	\$ 345,435

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). 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 the J Exhibits as reported in the required TEA Exhibits.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular 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. **These amendments included additional appropriation for various functions as detailed in Exhibit G-1.**
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as adopted and amended by the Board of Trustees. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2019 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 199,996
Non-appropriated Budget Funds	77,045
All Special Revenue Funds	\$ 277,041

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District **did not incur a material excess of expenditures over appropriations** in any of the legally required budgeted funds during the current year.

C. DEFICIT FUND EQUITY

The District **did not incur a deficit fund balance** in any fund during the current school year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The carrying amount of the District's cash and temporary investments at the end of the fiscal year follows:

CASH AND CASH EQUIVALENTS BY ACCOUNT	8/31/2019
Cash Deposits in Bank	\$ 6,209,640
Certificates of Deposit Maturity to 3 months	-
Cash on Hand	3,165
Restricted Cash Deposits in Bank	286,229
Total Cash and Cash Equivalents by Account Type	\$ 6,499,034
CASH AND CASH EQUIVALENTS BY FUND	8/31/2019
Cash and Cash Equivalents:	
General Fund	\$ 4,778,097
Major Governmental Funds	858,526
Non-Major Governmental Funds	386,713
Enterprise Funds	-
Internal Service Funds	111,102
Agency Funds	78,367
Trust Funds	57,987
Other Funds	228,242
Total Cash and Cash Equivalents by Fund	\$ 6,499,034

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. The District's cash deposits subject to custodial credit risk at the date of the highest cash balance and at year end were:

CUSTODIAL CREDIT RISK	Highest Cash Balance	8/31/2019
Name of Depository Bank: First National Bank of Central Texas & Citizens National Bank		
Total amount of FDIC Insurance (FDIC)	\$ 500,000	\$ 500,000
Amount of Bond or Securities Pledged	10,852,585	10,136,242
Total FDIC, Bond or Securities Pledged	\$ 11,352,585	\$ 10,636,242
Cash Deposits and Cash Investments in Bank	\$ 11,034,870	\$ 6,573,828
Excess or (Shortage) FDIC and Bond or Pledged Securities Pledged	\$ 317,715	\$ 4,062,414
The District's cash deposits were entirely covered by FDIC		
Insurance or by bond or pledged collateral by the Depository Bank	YES	YES

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.

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, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity 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 entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in commercial paper, corporate bonds, and mutual bond funds to the top 2 or 3 ratings issued by nationally recognized statistical rating organizations (NRSROs). As of the current fiscal year, the district's investments were rated by Standard & Poor's, Fitch Ratings, etc.

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

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

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

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 avoiding all investments denominated in a foreign currency.

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 below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The *Texpool* investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less and weighted average lives of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity. Texpool is subject to regulatory oversight by the State Treasurer, although it is not registered with the Securities and Exchange Commission.

U.S. Treasury Bonds and *Commercial Paper* classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

As of the end of the current fiscal year, the District had the following investments:

Investments	August 31, 2019 Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost -							
Investment pools:							
Texpool	\$ 12,689	\$ -	\$ -	\$ -	100.00%	-	AAAm*
Investments measured at net asset value (NAV)-							
Investment pools:							
LoneStar	-	-	-	-	0.00%	-	AAAm*
TexStar	-	-	-	-	0.00%	-	AAAm*
Investments measured by fair value level -							
U.S. Government Agency Securities:							
Federal Home Loan Bank	-	-	-	-	0.00%	-	AA+ to Aaa
Fannie Mae	-	-	-	-	0.00%	-	AAAm*
U.S. Treasury Bonds	-	-	-	-	0.00%	-	AAAm*
Money Market Mutual Funds	-	-	-	-	0.00%	-	Not rated
Certificates of Deposit	-	-	-	-	0.00%	-	BBB+ to AA-
Commercial Paper	-	-	-	-	0.00%	-	BBB+ to AA-
Restricted Investments-	-	-	-	-	0.00%	-	BBB+ to AA-
Scholarship Funds	-	-	-	-	0.00%	-	BBB+ to AA-
Education Foundation	-	-	-	-	0.00%	-	BBB+ to AA-
Total Investments	\$ 12,689	\$ -	\$ -	\$ -	100.00%		

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

Inter-fund balances at year end consisted of the following amounts:

FUND	Due From Other Funds	Due To Other Funds
General Fund		
Major Governmental Funds	\$ -	\$ -
Non-major Governmental Funds	55,555	-
Total General Fund	\$ 55,555	\$ -
Major Governmental Funds		
General Fund	\$ -	\$ -
Total Major Governmental Funds	\$ -	\$ -
Non-major Governmental Funds		
General Fund	\$ -	\$ 55,555
Total Non-major Governmental Funds	\$ -	\$ 55,555
Total Interfund Receivables / Payables	\$ 55,555	\$ 55,555

The balance of \$55,555 from non-major governmental funds to the general fund resulted from working capital amounts that will be transferred to the general fund the following year.

Inter-fund transfers for the current year end consisted of the following individual amounts:

FUND	Transfers In	Transfers Out
General Fund		
Other Funds	\$ -	\$ 66,000
Total General Fund	\$ -	\$ 66,000
Other Funds		
General Fund	\$ 66,000	\$ -
Total Other Funds	\$ 66,000	\$ -
Total Interfund Transfers	\$ 66,000	\$ 66,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to cover operating deficits in funds such as the Food Service Funds. The District did not make an operating transfer to the Food Service Fund during the current year.

During the current year, the District did not make a one-time transfer of funds from the general fund to the debt service fund to subsidize, in part, the District's obligation of interest and sinking fund requirements.

During the current year, the District did made a one-time transfer of funds from the general fund to the daycare internal service fund to subsidize, in part, the District's obligation for maintaining the fund for operating costs not covered by charges to specific funds.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**Receivables at year end were as follows:**

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 487,960	\$ 642,278	\$ 55,555	\$ -	\$ 1,185,793
Major Governmental Fund D/S	-	8,215	-	-	8,215
Non-major Governmental Funds	106,946	189,025	-	3,415	299,386
Total Governmental Activities	\$ 594,906	\$ 839,518	\$ 55,555	\$ 3,415	1,493,394
Amounts not scheduled for collection during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -

Payables at year end were as follows:

	Accounts Payable	Salaries Payable	Accrued Expenditures /Expense Payable	Due To Other Funds	Due To Other Govt.	Other	Total Payables
Governmental Activities:							
General Fund	\$167,215	\$589,471	\$ 11,839	\$ -	\$ 913,596	\$ -	\$ 1,682,121
Major Governmental Fund	-	-	-	-	58,278	-	58,278
Non-major Governmental Funds	55,260	78,299	7,968	55,555	-	-	197,082
Internal Service Funds	-	11,113	15,158	-	-	-	26,271
Total Governmental Type Activities	\$222,475	\$678,883	\$ 34,965	\$ 55,555	\$ 971,874	\$ -	\$ 1,963,752
Amounts not scheduled for payment during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the current year was as follows:

Primary Government				
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-Depreciable Assets-				
Land	\$ 1,369,560	\$ 474,624	\$ -	\$ 1,844,184
Depreciable Assets-				
Buildings and Improvements	37,674,158	644,492	-	38,318,650
Furniture and Equipment	3,703,571	234,524	67,116	3,870,979
Totals at Historic Cost	\$ 42,747,289	\$ 1,353,640	\$ 67,116	\$ 44,033,813
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 20,290,564	\$ 801,500	\$ -	\$ 21,092,064
Furniture and Equipment	2,748,733	198,227	67,116	2,879,844
Total Accumulated Depreciation	\$ 23,039,297	\$ 999,727	\$ 67,116	\$ 23,971,908
Governmental Activities Capital				
Assets-Net	\$ 19,707,992	\$ 353,913	\$ -	\$ 20,061,905

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 756,199
Instructional Resources and Media Services	500
School Leadership	561
Student (Pupil) Transportation	60,341
Food Services	4,271
Cocurricular/Extracurricular Activities	54,403
General Administration	1,231
Plant Maintenance and Operations	122,221
Total Depreciation Expense	\$ 999,727

The District has no capital assets that are not being depreciated as of the current fiscal year end except for land.

G. 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 proceeds from loans are shown in the governmental fund financial statements as Other Resources and principal payments are shown as Other Uses. The District has no short-term debt payable.

H. BONDS AND LONG-TERM NOTES PAYABLE

The following is a summary of the District's long-term debt for the year ended August 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 9,819,164	\$ -	\$ 1,760,000	8,059,164	\$ 1,210,000
Premium on Bond Issuance	411,040	-	44,192	366,848	
Maintenance Tax Notes	615,191	-	159,280	455,911	162,705
Capital Leases	65,231	-	20,793	44,438	21,736
Total Bonds and Notes Payable	\$ 10,910,626	\$ -	\$ 1,984,265	\$ 8,926,361	\$ 1,394,442
Other Liabilities:					
Accrued Interest CAB Bonds Payable	\$ 4,571,303	\$ 270,738	\$ -	4,842,041	\$ -
Accrued Interest CIB Bonds Payable	11,186	9,444	11,186	9,444	9,444
Total Other Liabilities	\$ 4,582,489	\$ 280,182	\$ 11,186	\$ 4,851,485	\$ 9,444
Total Governmental Activities Long-Term Liabilities	\$ 15,493,115	\$ 280,182	\$ 1,995,451	\$ 13,777,846	\$ 1,403,886

Debt Payable - Governmental Activities:

Description	Interest Rate	Original Issue	Interest Current Year	Beginning Balance 9/1/2018	Additions	Reductions	Ending Balance 8/31/2019
General Obligation Bonds Payable:							
2001 CAB Bonds	3.75%-5.50%	\$ 114,164	\$ -	\$ 114,164	\$ -	\$ -	\$ 114,164
2014 Series Bonds	2.00%-3.00%	7,070,000	141,000	4,885,000	-	555,000	4,330,000
2015 Series Bonds	2.04%	7,100,000	91,922	4,820,000	-	1,205,000	3,615,000
Total General Obligation Bonds			\$ 232,922	\$ 9,819,164	\$ -	\$ 1,760,000	\$ 8,059,164
Premium on Bond Issuance				\$ 411,040	\$ -	\$ 44,192	\$ 366,848
Maintenance Tax & Loans Payable:							
2016 Series Notes	2.64%	\$ 510,000	\$ 9,181	\$ 347,590	\$ -	\$ 83,584	\$ 264,006
Government Loan	2.68%	174,047	3,136	140,726	-	34,058	106,668
Tax Notes	3.41%	126,875	3,173	126,875	-	41,638	85,237
Total Maintenance Tax Notes			\$ 15,490	\$ 615,191	\$ -	\$ 159,280	\$ 455,911
Capital Leases Payable:							
2015 Series Lease	4.44%	\$ 118,764	\$ 2,959	\$ 65,231	\$ -	\$ 20,793	\$ 44,438
Total Capital Leases			\$ 2,959	\$ 65,231	\$ -	\$ 20,793	\$ 44,438
Total Debt Payable - Governmental Activities			\$ 251,371	\$ 10,910,626	\$ -	\$ 1,984,265	\$ 8,926,361

The following table summarizes the annual debt service requirements of the District's Governmental Activities long-term debt August 31, 2019:

	General Obligation Bonds		Maintenance Tax Notes & Loans Payable		Capital Leases		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 1,210,000	\$ 215,376	\$ 162,705	\$ 15,208	\$ 21,736	\$ 2,016	\$ 1,394,441	\$ 232,600
2021	1,245,000	185,268	168,899	9,849	22,702	1,031	1,436,601	196,148
2022	1,280,000	154,302	124,307	5,048	-	-	1,404,307	159,350
2023	1,305,000	122,382	-	-	-	-	1,305,000	122,382
2024	1,340,000	89,856	-	-	-	-	1,340,000	89,856
2025-2029	1,643,647	5,193,336	-	-	-	-	1,643,647	5,193,336
2030-2034	35,517	3,424,483	-	-	-	-	35,517	3,424,483
2035-2039	-	-	-	-	-	-	-	-
2040-2044	-	-	-	-	-	-	-	-
Totals	\$ 8,059,164	\$ 9,385,004	\$ 455,911	\$ 30,105	\$ 44,438	\$ 3,047	\$ 8,559,513	\$ 9,418,155

I. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments at year end as follows (the imputed interest on the leases range from 5.50% to 5.50%:

Year Ending August 31	
2020	\$ 51,108
2021	51,108
2022	51,108
2023	51,108
2024	42,590
Total Minimum Future Rentals	\$ 247,021
Rental Expenditures in Fiscal Year 2019	\$ 111,479

J. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in "lump sum" cash payment to such employee or his/her estate. Individuals employed after October 1, 1985, are not eligible to receive the lump sum payments.

K. HEALTH CARE COVERAGE

The District provided health insurance coverage for employees under the provisions of the Teacher Retirement System of Texas (TRS) active care health insurance plan during the current year. The District paid premiums per month per employee to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

L. DEFERRED INFLOWS - UNEARNED REVENUE -GOVERNMENTAL FUND FINANCIAL STATEMENTS

Deferred Inflows - Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Unavailable Tax Revenue	\$ 444,044	\$ -	\$ 97,321	\$ 541,365
Unavailable State and Local Revenue	-	21,280	-	21,280
Total Deferred Inflows	\$ 444,044	\$ 21,280	\$ 97,321	\$ 562,645

M. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments at year end are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as "Due from State Agencies" except for some federal programs which are received directly from the federal government for grants such as the REAP Program.

FUND	DUE FROM STATE- FOUNDATION ENTITLEMENTS	DUE FROM STATE-STATE & FEDERAL GRANTS	DUE FROM OTHER GOVERNMENTS	TOTAL
General	\$ 604,898	\$ -	\$ 37,380	\$ 642,278
Special Revenue	-	189,025	-	189,025
Debt Service	-	-	8,215	8,215
Totals	\$ 604,898	\$ 189,025	\$ 45,595	\$ 839,518

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 7,906,925	\$ -	\$ 1,986,117	\$ -	\$ 9,893,042
Penalties, Interest and Other Tax- Related Income	981,006	-	41,816	-	1,022,822
Investment Income	135,558	9,844	32,945	-	178,347
Foundations, Gifts and Bequests	17,036	-	-	-	17,036
Food Sales	-	242,710	-	-	242,710
Co-curricular Student Activities	50,931	-	-	-	50,931
Insurance Recovery, SSA, & Other	183,945	130,136	-	-	314,081
Totals	\$ 9,275,402	\$382,689	\$ 2,060,878	\$ -	\$11,718,969

O. LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is aware of pending exposure to claims related to these areas; however, legal counsel and the District do not expect any financial exposure to assets of the District.

P. CONSTRUCTION & OTHER SIGNIFICANT COMMITMENTS & CONTINGENCIES

The District at year end had not incurred or made any additional commitments and/or contingencies in connection with construction or other areas of significance.

Q. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District was a member of the Hill County Shared Services Arrangement ("SSA"). The SSA provides services for juvenile justice alternative education to member districts. Malone Independent School District is the fiscal agent for the SSA. In addition to the District, other member districts participated in the alternative education cooperative. The fiscal agent provided SSA services. The member districts provided the funds to the fiscal agent. The Shared Services Arrangements – Juvenile Justice Alternative Education had been accounted for using Model 3 in the SSA section of the TEA Resource Guide. The District had accounted for the payments to the fiscal agent of the SSA in the General Fund as intergovernmental expenditures. The District's expenditures to the SSA for the current year were as follows:

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue Fund	District Special Revenue Fund	Program Expenditures Current Year
	Alternative Education		Local Revenue			
Hillsboro ISD		Malone ISD		446	N.A.	\$ 19,475
TOTAL FUNCTION 95 EXPENDITURES						\$ 19,475

The district does not participate in shared service arrangements with other school districts for various other educational activities. In addition to the District, other member districts participate in the educational cooperatives and the fiscal agent provides SSA services. The funding for each activity is received by the fiscal agent from the grantor agency. The fiscal agent then provides the funds to the member districts. According to guidance provided in TEA's Resource Guide, the Fiscal Agent has accounted for the fiscal agent's activities of the SSA in a Special Revenue Fund. The Shared Services Arrangements has been accounted for using Model 1 in the SSA section of the TEA Resource Guide. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, 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 the District. The fiscal agent manager is responsible for all financial activities of the share services arrangement. Presented below are the shared service arrangements in which the District participates and the extent of funding received and expended under each program.

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue Fund	District Special Revenue Fund	Program Expenditures Current Year
None		Hillsboro ISD				\$ -

R. SUBSEQUENT EVENTS

In preparing the basic financial statements, District administration has evaluated events and transactions for potential recognition or disclosure through **January 13, 2020**, the date this Annual Financial Report was issued. No material subsequent events had occurred in the period of August 31, 2019 through that date.

S. RELATED ORGANIZATIONS

The District at present does maintain an Educational Foundation (the "Foundation"). This entity was established as a not-for-profit entity to provide assistance and support for teachers and students to develop special programs and projects and other school district support activities. This entity is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 61*. The members of the board of the Foundation are appointed by an outside taxpayer group; however, the support for the District is material to the financial statements and has been included as a private purpose trust fund per the Schedule E Exhibits.

T. RELATED PARTY TRANSACTIONS

The District does not incur related party transactions with businesses owned or employers for various members of the board of trustees. Therefore, the District did not incur any material reportable related party transactions or balances as of and during the current year end.

U. FUND BALANCE / NET POSITION ADJUSTMENTS

During fiscal year 2019, the District did not make a prior period net position adjustment or a fund balance adjustment during the current fiscal year.

V. RISK FINANCING AND OTHER COVERAGE

Workers' Compensation Program

During the current year, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2018, the Fund carries a discounted reserve of \$0 for future development on reported claims and claims that have been incurred but not yet reported. For the current year, the Fund anticipates no additional liability to members beyond their contractual obligation for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

The District has selected the partially self-insured plan and the costs associated with this self-insurance plan are reported as inter-fund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General Fund. The liabilities of the plan include incurred but not reported claims. These liabilities reported in the funds at year end, are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported.

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using an expected future investment yield assumption.

Estimates of claims payable and of claims incurred, but not reported at August 31, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. Changes in the balances of claims liabilities during the past year are as follows:

	Year Ended August 31, 2018	Year Ended August 31, 2019
Unpaid claims, beginning of year	\$ 29,561	\$ 35,851
Incurred claims (including IBNR'S)	61,561	1,584
Claim Payments	(55,271)	(22,277)
Unpaid claims, end of year	\$ 35,851	\$ 15,158

Property / Casualty Program

During the current year ended, the District participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage for the following:

- 1) Crime,
- 2) General Liability,
- 3) Property and Band Floater,
- 4) Sexual Misconduct Endorsement, and
- 5) SP Legal Liability.

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

The Fund purchase stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund used the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the current year ended, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Program

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

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

W. DEFINED BENEFIT PENSION PLAN

a. Plan Description

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

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

b. Pension Plan Fiduciary Net Position

Detail 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.

c. 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.

d. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

	Contribution Rates	
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 431,147
Current fiscal year member contributions		\$ 991,149
2018 measurement year NECE on-behalf contributions		\$ 597,175
<u>Payments made by the State On-Behalf of the District for Medicare, Part D:</u>		
Fiscal year 2017 Medicare, Part D On-Behalf		\$ 36,318
Fiscal year 2018 Medicare, Part D On-Behalf		\$ 37,643
Fiscal year 2019 Medicare, Part D On-Behalf		\$ 47,937

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

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

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

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

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

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

e. Actuarial Assumptions

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

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected investment rate of return	7.25%
Municipal Bond Rate of 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"
Inflation	2.30%
Salary Increases including inflation	3.05 % to 9.05%
Ad hoc post-employment benefit changes	None

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

f. Discount Rate

The discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% 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 projected to be available to make all benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized as follows:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2018

Asset Class	Target Allocation ¹	Long-Term Expected Arithmetic Real Rate of Return	Expected Contribution 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 ²			(0.79)
Total	100.00%		7.25%

1 Target allocations are based on the FY2016 policy model.

2 The Expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

g. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	\$ 10,139,419	\$ 6,718,229	\$ 3,948,573

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

At August 31, 2019, the District reported the liability for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 6,718,229
State's proportionate share that is associated with the District	9,763,402
Total	\$ 16,481,631

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 that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2019 the employer's proportion of the collective net pension liability and the percentage increase (decrease) from its proportion measured as of August 31, 2018 are shown in the required supplementary information in Exhibit G-2.

Changes Since the Prior Actuarial Valuation – There 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
- 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 assumption including rates of salary increase for individual participant was updated based on the same experience study
- The discount rate changed from 8.0% as of August 31, 2017 to 6.097% 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 August 31, 2019, the District recognized the following:

Year Ended August 31, 2019 pension expense	\$ 1,905,399
Revenue for support provided by the State	<u>\$ 966,317</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 41,876	\$ 164,839
Changes in actuarial assumptions	2,422,245	75,695
Differences between projected and actual investment earnings	-	127,473
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	519,667	193
Total as of August 31, 2018 measurement date	\$ 2,983,788	\$ 368,200
Contributions paid to TRS subsequent to the measurement date	431,147	
Total as of fiscal year-end	\$ 3,414,935	\$ 368,200

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:

<u>Fiscal year ended August 31,</u>	<u>Pension Expense Amount</u>
2020	\$ 704,436
2021	436,179
2022	362,217
2023	429,761
2024	412,072
Thereafter	270,923

X. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Comprehensive Annual Financial Report that includes financial statements and require 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 the TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)-542-6592.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee. Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependent enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for 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.

TRS-Care Monthly Premiums for Retirees January 1, 2018 - December 31, 2018		
	Medicare	Non-Medicare
Retiree*	\$135	\$200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1020	999

*or surviving spouse

Contribution

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 charge based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 126,920
Current fiscal year member contributions		\$ 83,667
2018 measurement year NECE on-behalf contributions		\$ 144,980

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions

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

<u>Actuarial Methods and Assumptions:</u>	
Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
<u>Additional Actuarial Methods and Assumptions:</u>	
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
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50% , including inflation
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad-hoc Post Employment Benefit Changes	None

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at a statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
Proportionate share of the net OPEB liability	\$ 10,742,464	\$ 9,024,675	\$ 7,665,794

Healthcare Cost Trend Rates Sensitivity Analysis

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 7,495,140	\$ 9,024,675	\$ 11,039,107

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

At August 31, 2019, the District reported a liability of \$9,024,675 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 9,024,675
State's proportionate share that is associated with the District	10,508,426
Total	<u>\$ 19,533,101</u>

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

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.0180743238% which was similar to the proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or the 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 was 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.
- Change of Benefit Terms Since the Prior Measurement Date: The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 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 dependent 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 August 31, 2019, the District recognized OPEB expense of \$565,901 and revenue of \$382,233 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 478,906	\$ 142,423
Changes in actuarial assumptions	150,597	2,711,397
Differences between projected and actual investment earnings	1,578	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	33	340,240
Contributions paid to TRS subsequent to the measurement date	126,920	
Total as of fiscal year-end	\$ 758,034	\$ 3,194,060

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:

Fiscal year ended August 31,	OPEB Expense Amount
2020	\$ (397,510)
2021	(397,510)
2022	(397,510)
2023	(397,809)
2024	(397,979)
Thereafter	(574,628)

Y. TAX ABATEMENT:

Hillsboro Independent School District has entered into an agreement with IKO Southwest, Inc. on November 10, 2014 and amended December 12, 2016.

(<https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php>) The agreement was for IKO Southwest, Inc. to invest capital of \$145,950,000 on a long-term basis for a valuation limitation of \$20,000,000. For fiscal year 2019, which is year 6 for the agreement, with the M&O tax rate \$1.15 per \$100, with property valued at \$96,000,000 without considering the limit and \$20,000,000 with the limit. When calculated, the district forgoes collecting \$874,000 in tax revenue – however, that will be offset by the increase in state funding through the FSP funding formula. In addition to the tax abatement, the IKO Southwest, Inc. has made other commitments including new qualifying jobs of 25 and non-qualifying jobs of 25.

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 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	\$ 7,903,350	\$ 9,211,350	\$ 9,275,402	\$ 64,052
5800 State Program Revenues	10,375,665	10,275,665	9,878,751	(396,914)
5900 Federal Program Revenues	154,000	727,500	790,837	63,337
5020 Total Revenues	18,433,015	20,214,515	19,944,990	(269,525)
EXPENDITURES:				
Current:				
0011 Instruction	9,693,110	10,008,110	9,979,552	28,558
0012 Instructional Resources and Media Services	221,645	221,645	201,422	20,223
0013 Curriculum and Instructional Staff Development	227,430	227,430	201,036	26,394
0021 Instructional Leadership	426,820	453,820	444,849	8,971
0023 School Leadership	1,376,240	1,506,240	1,504,083	2,157
0031 Guidance, Counseling and Evaluation Services	386,335	391,335	381,639	9,696
0033 Health Services	167,850	172,850	166,036	6,814
0034 Student (Pupil) Transportation	492,785	558,830	544,448	14,382
0036 Extracurricular Activities	1,276,710	1,469,710	1,455,571	14,139
0041 General Administration	812,005	942,205	931,415	10,790
0051 Facilities Maintenance and Operations	2,223,660	3,077,935	3,010,685	67,250
0052 Security and Monitoring Services	83,900	83,900	79,231	4,669
0053 Data Processing Services	349,095	355,575	351,491	4,084
0061 Community Services	120,135	144,135	133,314	10,821
Debt Service:				
0071 Principal on Long-Term Debt	178,600	180,100	180,073	27
0072 Interest on Long-Term Debt	22,195	22,195	18,449	3,746
0073 Bond Issuance Cost and Fees	2,500	2,500	-	2,500
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	30,000	30,000	19,475	10,525
0099 Other Intergovernmental Charges	312,000	300,000	297,445	2,555
6030 Total Expenditures	18,403,015	20,148,515	19,900,214	248,301
1100 Excess of Revenues Over Expenditures	30,000	66,000	44,776	(21,224)
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(30,000)	(66,000)	(66,000)	-
1200 Net Change in Fund Balances	-	-	(21,224)	(21,224)
0100 Fund Balance - September 1 (Beginning)	3,820,426	3,820,426	3,820,426	-
3000 Fund Balance - August 31 (Ending)	\$ 3,820,426	\$ 3,820,426	\$ 3,799,202	\$ (21,224)

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

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016
District's Proportion of the Net Pension Liability (Asset)	0.012205547%	0.01204763%	0.0119821%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 6,718,229	\$ 3,852,183	\$ 4,527,850
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	9,763,402	5,872,403	7,101,670
Total	<u>\$ 16,481,631</u>	<u>\$ 9,724,586</u>	<u>\$ 11,629,520</u>
District's Covered Payroll	\$ 12,382,259	\$ 12,030,779	\$ 11,843,324
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	54.26%	32.02%	38.23%
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 five 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		FY 2015	
Plan Year 2015		Plan Year 2014	
	0.0124074%		0.0084659%
\$	4,385,851	\$	2,261,359
	6,909,071		6,037,314
\$	11,294,922	\$	8,298,673
\$	11,634,174	\$	11,266,513
	37.70%		20.07%
	78.43%		83.25%

HILLSBORO 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	\$ 431,147	\$ 411,174	\$ 384,666
Contribution in Relation to the Contractually Required Contribution	(431,147)	(411,174)	(384,666)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 12,872,046	\$ 12,382,259	\$ 12,030,779
Contributions as a Percentage of Covered Payroll	3.35%	3.32%	3.20%

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	
\$	380,701	\$	367,387
	(380,701)		(367,387)
\$	-	\$	-
\$	11,843,324	\$	11,634,174
	3.21%		3.16%

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

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.018074324%	0.018694132%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 9,024,675	\$ 8,129,377
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	10,508,426	9,296,811
Total	<u>\$ 19,533,101</u>	<u>\$ 17,426,188</u>
District's Covered Payroll	\$ 12,382,259	\$ 12,030,779
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	72.88%	67.57%
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. 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.

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2019

	2019	2018
Contractually Required Contribution	\$ 126,920	\$ 124,684
Contribution in Relation to the Contractually Required Contribution	(126,920)	(124,684)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered Payroll	\$ 12,872,046	\$ 12,382,259
Contributions as a Percentage of Covered Payroll	0.99%	1.01%

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.

**HILLSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2019**

A. Notes to Schedules for the TRS Pension / OPEB Plan

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

There 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
- 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 assumption including rates of salary increase for individual participant was updated based on the same experience study
- The discount rate changed from 8.0% as of August 31, 2017 to 6.097% 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

Change of Benefit Terms Since the Prior Measurement Date: The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 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 dependent 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

The following were changes to the actuarial assumptions or other inputs that affected measurement of 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.

**HILLSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2019**

- The discount rate was 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.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

**OTHER SUPPLEMENTARY INFORMATION –
COMBINING AND INDIVIDUAL SCHEDULES**

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

Data Control Codes		211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 207,857
1240	Due from Other Governments	61,450	61,486	-	43,957
1290	Other Receivables	-	-	-	3,415
1000	Total Assets	<u>\$ 61,450</u>	<u>\$ 61,486</u>	<u>\$ -</u>	<u>\$ 255,229</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ 3,246	\$ -	\$ 48,013
2160	Accrued Wages Payable	49,943	25,257	-	-
2170	Due to Other Funds	6,609	30,252	-	-
2200	Accrued Expenditures	4,898	2,731	-	-
2000	Total Liabilities	<u>61,450</u>	<u>61,486</u>	<u>-</u>	<u>48,013</u>
DEFERRED INFLOWS OF RESOURCES					
2602	Unavailable State and Local Revenue	-	-	-	7,220
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,220</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	199,996
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,996</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 61,450</u>	<u>\$ 61,486</u>	<u>\$ -</u>	<u>\$ 255,229</u>

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 ESEA Title IV, Part A	410 State Instructional Materials	429 Other State Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,060	\$ -
-	-	-	3,805	7,000	9,944	-	1,383
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,805</u>	<u>\$ 7,000</u>	<u>\$ 9,944</u>	<u>\$ 14,060</u>	<u>\$ 1,383</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	3,099	-	-	-	-
-	-	-	367	7,000	9,944	-	1,383
-	-	-	339	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,805</u>	<u>7,000</u>	<u>9,944</u>	<u>-</u>	<u>1,383</u>
-	-	-	-	-	-	14,060	-
-	-	-	-	-	-	14,060	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,805</u>	<u>\$ 7,000</u>	<u>\$ 9,944</u>	<u>\$ 14,060</u>	<u>\$ 1,383</u>

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

EXHIBIT H-1

Data Control Codes		461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
1110	Cash and Cash Equivalents	\$ 81,046	\$ 302,963	\$ 83,750	\$ 386,713
1240	Due from Other Governments	-	189,025	-	189,025
1290	Other Receivables	-	3,415	-	3,415
1000	Total Assets	<u>\$ 81,046</u>	<u>\$ 495,403</u>	<u>\$ 83,750</u>	<u>\$ 579,153</u>
LIABILITIES					
2110	Accounts Payable	\$ 4,001	\$ 55,260	\$ -	\$ 55,260
2160	Accrued Wages Payable	-	78,299	-	78,299
2170	Due to Other Funds	-	55,555	-	55,555
2200	Accrued Expenditures	-	7,968	-	7,968
2000	Total Liabilities	<u>4,001</u>	<u>197,082</u>	<u>-</u>	<u>197,082</u>
DEFERRED INFLOWS OF RESOURCES					
2602	Unavailable State and Local Revenue	-	21,280	-	21,280
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>21,280</u>	<u>-</u>	<u>21,280</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	199,996	-	199,996
3470	Capital Acquisition and Contractual Obligation	-	-	83,750	83,750
3490	Other Restricted Fund Balance	77,045	77,045	-	77,045
3000	Total Fund Balances	<u>77,045</u>	<u>277,041</u>	<u>83,750</u>	<u>360,791</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 81,046</u>	<u>\$ 495,403</u>	<u>\$ 83,750</u>	<u>\$ 579,153</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 251,892
5800 State Program Revenues	-	-	-	30,791
5900 Federal Program Revenues	837,971	409,003	5,026	944,032
5020 Total Revenues	837,971	409,003	5,026	1,226,715
EXPENDITURES:				
Current:				
0011 Instruction	807,606	396,894	5,026	-
0013 Curriculum and Instructional Staff Development	30,365	6,950	-	-
0031 Guidance, Counseling and Evaluation Services	-	5,159	-	-
0035 Food Services	-	-	-	1,256,008
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
6030 Total Expenditures	837,971	409,003	5,026	1,256,008
1200 Net Change in Fund Balance	-	-	-	(29,293)
0100 Fund Balance - September 1 (Beginning)	-	-	-	229,289
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ 199,996

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 ESEA Title IV, Part A	410 State Instructional Materials	429 Other State Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	116,472	1,803
3,410	26,978	61,742	23,363	36,912	61,050	-	-
3,410	26,978	61,742	23,363	36,912	61,050	116,472	1,803
-	26,978	61,417	21,738	36,912	58,194	116,472	1,803
-	-	-	1,625	-	2,856	-	-
-	-	-	-	-	-	-	-
3,410	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	325	-	-	-	-	-
3,410	26,978	61,742	23,363	36,912	61,050	116,472	1,803
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 130,797	\$ 382,689	\$ -	\$ 382,689
5800 State Program Revenues	-	149,066	-	149,066
5900 Federal Program Revenues	-	2,409,487	-	2,409,487
5020 Total Revenues	130,797	2,941,242	-	2,941,242
EXPENDITURES:				
Current:				
0011 Instruction	-	1,533,040	-	1,533,040
0013 Curriculum and Instructional Staff Development	-	41,796	-	41,796
0031 Guidance, Counseling and Evaluation Services	-	5,159	-	5,159
0035 Food Services	-	1,259,418	-	1,259,418
0036 Extracurricular Activities	123,956	123,956	-	123,956
0041 General Administration	-	325	-	325
6030 Total Expenditures	123,956	2,963,694	-	2,963,694
1200 Net Change in Fund Balance	6,841	(22,452)	-	(22,452)
0100 Fund Balance - September 1 (Beginning)	70,204	299,493	83,750	383,243
3000 Fund Balance - August 31 (Ending)	\$ 77,045	\$ 277,041	\$ 83,750	\$ 360,791

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 AUGUST 31, 2019

	753 Self- Insurance Workers Comp.	799 Internal Service Daycare	Total Internal Service Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 93,922	\$ 17,180	\$ 111,102
Total Assets	93,922	17,180	111,102
LIABILITIES			
Current Liabilities:			
Accrued Wages Payable	-	11,113	11,113
Accrued Expenses	14,947	211	15,158
Total Liabilities	14,947	11,324	26,271
NET POSITION			
Restricted for Other Purposes	78,975	5,856	84,831
Total Net Position	\$ 78,975	\$ 5,856	\$ 84,831

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2019

	753 Self- Insurance Workers	799 Internal Service Daycare	Total Internal Service Funds
OPERATING REVENUES:			
Local and Intermediate Sources	\$ 59,706	\$ 105,654	\$ 165,360
State Program Revenues	-	9,627	9,627
Total Operating Revenues	59,706	115,281	174,987
OPERATING EXPENSES:			
Payroll Costs	22,277	174,551	196,828
Supplies and Materials	-	874	874
Total Operating Expenses	22,277	175,425	197,702
Income (Loss) Before Transfers	37,429	(60,144)	(22,715)
Transfer In	-	66,000	66,000
Change in Net Position	37,429	5,856	43,285
Total Net Position - September 1 (Beginning)	41,546	-	41,546
Total Net Position August 31 (Ending)	\$ 78,975	\$ 5,856	\$ 84,831

HILLSBORO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

	753 Self- Insurance Workers Comp.	799 Internal Service Daycare	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Assessments - Other Funds	\$ 38,802	\$ 105,654	\$ 144,456
Cash Payments to Employees for Services	-	(167,448)	(167,448)
Cash Payments for Insurance Claims	(22,277)	-	(22,277)
Cash Payments for Suppliers	-	(874)	(874)
Net Cash Provided by (Used for) Operating Activities	<u>16,525</u>	<u>(62,668)</u>	<u>(46,143)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Capital Contributed by Other Funds	-	66,000	66,000
Net Increase in Cash and Cash Equivalents	16,525	3,332	19,857
Cash and Cash Equivalents at Beginning of Year	77,397	13,848	91,245
Cash and Cash Equivalents at End of Year	<u>\$ 93,922</u>	<u>\$ 17,180</u>	<u>\$ 111,102</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided by (Used for) Operating Activities:</u>			
Operating Income (Loss):	\$ 37,429	\$ (60,144)	\$ (22,715)
Effect of Increases and Decreases in Current Assets and Liabilities:			
Increase (decrease) in Accrued Wages Payable	-	(2,469)	(2,469)
Increase (decrease) in Accrued Expenses	(20,904)	(55)	(20,959)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 16,525</u>	<u>\$ (62,668)</u>	<u>\$ (46,143)</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>			
Cash and Cash Equivalents on Balance Sheet	\$ -	\$ -	\$ -
Restricted - Cash and Cash Equivalents on	93,922	17,180	111,102
Total Cash and Cash Equivalents	<u>\$ 93,922</u>	<u>\$ 17,180</u>	<u>\$ 111,102</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2019

	BALANCE SEPTEMBER 1 2018	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2019
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 67,773	\$ 147,244	\$ 136,650	\$ 78,367
Liabilities:				
Due to Student Groups	\$ 67,773	\$ 147,244	\$ 136,650	\$ 78,367
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 67,773	\$ 147,244	\$ 136,650	\$ 78,367
Liabilities:				
Due to Student Groups	\$ 67,773	\$ 147,244	\$ 136,650	\$ 78,367

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 AUGUST 31, 2019

	816 Private Purpose Trust Fund	817 Private Purpose Trust Kemp Scholar.	Total Private Purpose Trust Funds
<hr/>			
ASSETS			
Restricted Assets	\$ 34,989	\$ 22,998	\$ 57,987
Total Assets	<u>34,989</u>	<u>22,998</u>	<u>57,987</u>
NET POSITION			
Restricted for Scholarships	<u>34,989</u>	<u>22,998</u>	<u>57,987</u>
Total Net Position	<u>\$ 34,989</u>	<u>\$ 22,998</u>	<u>\$ 57,987</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2019

	816 Private Purpose Trust Fund	817 Private Purpose Trust Kemp Scholar.	Total Private Purpose Trust Funds
ADDITIONS:			
Local and Intermediate Sources	\$ 3,800	\$ 505	\$ 4,305
Total Additions	<u>3,800</u>	<u>505</u>	<u>4,305</u>
DEDUCTIONS:			
Professional and Contracted Services	875	-	875
Supplies and Materials	<u>4,100</u>	<u>-</u>	<u>4,100</u>
Total Deductions	<u>4,975</u>	<u>-</u>	<u>4,975</u>
Change in Net Position	(1,175)	505	(670)
Total Net Position - September 1 (Beginning)	<u>36,164</u>	<u>22,493</u>	<u>58,657</u>
Total Net Position - August 31 (Ending)	<u>\$ 34,989</u>	<u>\$ 22,998</u>	<u>\$ 57,987</u>

REQUIRED TEA SCHEDULES

HILLSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2019

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ Various
2011	1.150000	0.260000	524,129,050
2012	1.150000	0.260000	524,014,272
2013	1.150000	0.260000	504,580,551
2014	1.150000	0.260000	521,587,966
2015	1.150000	0.260000	557,301,264
2016	1.150000	0.260000	570,749,971
2017	1.150000	0.260000	597,783,415
2018	1.150000	0.260000	656,958,092
2019 (School year under audit)	1.150000	0.260000	709,087,283
1000 TOTALS			

(10) Beginning Balance 9/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2019
\$ 119,758	\$ -	\$ 1,077	\$ 243	\$ (14,330)	\$ 104,108
21,884	-	532	120	(1,132)	20,100
24,366	-	856	193	(1,068)	22,249
23,130	-	215	49	(2,714)	20,152
30,619	-	1,496	338	(2,414)	26,371
40,796	-	3,305	747	(2,888)	33,856
50,236	-	9,172	2,074	(4,719)	34,271
78,851	-	13,271	3,001	(11,051)	51,528
180,967	-	58,427	13,210	(31,688)	77,642
-	9,998,165	7,987,608	1,805,928	-	204,629
<u>\$ 570,607</u>	<u>\$ 9,998,165</u>	<u>\$ 8,075,959</u>	<u>\$ 1,825,903</u>	<u>\$ (72,004)</u>	<u>\$ 594,906</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 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	\$ 229,500	\$ 229,500	\$ 251,892	\$ 22,392
5800 State Program Revenues	5,000	5,000	30,791	25,791
5900 Federal Program Revenues	1,085,500	1,100,500	944,032	(156,468)
5020 Total Revenues	1,320,000	1,335,000	1,226,715	(108,285)
EXPENDITURES:				
Current:				
0035 Food Services	1,320,000	1,335,000	1,256,008	78,992
6030 Total Expenditures	1,320,000	1,335,000	1,256,008	78,992
1200 Net Change in Fund Balances	-	-	(29,293)	(29,293)
0100 Fund Balance - September 1 (Beginning)	229,289	229,289	229,289	-
3000 Fund Balance - August 31 (Ending)	\$ 229,289	\$ 229,289	\$ 199,996	\$ (29,293)

HILLSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 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	\$ 1,922,000	\$ 1,967,000	\$ 2,060,878	\$ 93,878
5800 State Program Revenues	75,000	30,000	17,904	(12,096)
5020 Total Revenues	1,997,000	1,997,000	2,078,782	81,782
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,760,000	1,760,000	1,760,000	-
0072 Interest on Long-Term Debt	235,000	235,000	232,922	2,078
0073 Bond Issuance Cost and Fees	2,000	2,000	569	1,431
6030 Total Expenditures	1,997,000	1,997,000	1,993,491	3,509
1200 Net Change in Fund Balances	-	-	85,291	85,291
0100 Fund Balance - September 1 (Beginning)	730,468	730,468	730,468	-
3000 Fund Balance - August 31 (Ending)	\$ 730,468	\$ 730,468	\$ 815,759	\$ 85,291

**REPORTS ON COMPLIANCE, INTERNAL CONTROLS AND
FEDERAL AWARDS**

James E. Rodgers and Company, P.C.

Certified Public Accountants

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Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 13, 2020

Government Auditing Standards 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
Hillsboro Independent School District
Hillsboro, Texas 76645**

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Hillsboro Independent School District, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise Hillsboro Independent School District's basic financial statements, and have issued our report thereon dated January 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillsboro 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 Hillsboro Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hillsboro Independent School District's internal control.

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

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

James E. Rodgers and Company, P.C.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsboro 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.

Respectfully submitted,

A handwritten signature in blue ink that reads "James E. Rodgers and Company". The signature is written in a cursive, flowing style.

James E. Rodgers and Company, P.C.

James E. Rodgers and Company, P.C.

Certified Public Accountants

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Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 13, 2020

Single Audit Report on Compliance for each Major Federal Program and Report on Internal Control over Compliance

To the Board of Trustees
Hillsboro Independent School District
Hillsboro, Texas 76645

Report on Compliance for Each Major Federal Program

We have audited Hillsboro 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 Hillsboro Independent School District's major federal programs for the year ended August 31, 2019. Hillsboro 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hillsboro 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 Hillsboro 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 Hillsboro Independent School District's compliance.

Opinion on Each Major Federal Program

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

James E. Rodgers and Company, P.C.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and therefore, are not described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

Hillsboro Independent School District's response is not required since noncompliance findings were not identified in our audit and are not described in the accompanying schedule of findings and questioned costs. Hillsboro Independent School District's response if required would not have been subjected to the auditing procedures applied in the audit of compliance and, accordingly, we would not have expressed an opinion on the response.

Report on Internal Control Over Compliance

Management of Hillsboro Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hillsboro 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 Hillsboro Independent School District's internal control over compliance.

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

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

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

Respectfully submitted,



James E. Rodgers and Company, P.C.

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

I. Summary of the Auditor's Results:		
1.	Type of report issued on the financial statements:	Unmodified Opinion
2 (a).	Significant deficiencies in internal control:	None
(b).	Significant deficiencies that were material weaknesses:	None
3.	Noncompliance, which is material to the financial statements:	None
4 (a).	Significant deficiencies in internal control over major programs	None
(b).	Significant deficiencies that were material weaknesses	None
5.	Type of report issued on compliance with major programs	Unmodified Opinion
6.	Audit findings that the auditor is required to report under Section .510(a). These include the following:	
(a).	Significant deficiencies in internal control over major programs.	None
(b).	Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.	None
(c).	For a type of compliance requirement for a major program, known questioned costs when likely questioned costs are greater than \$25,000.	None
(d).	Known questioned costs greater than \$25,000 for a federal program that is not audited as a major program.	None
(e).	The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards.	Not applicable
(f).	Known fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.	None
(g).	Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.	None
7.	Identification of major programs:	
	• ESEA Title I, Part A (CFDA 84.010)	
8.	Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
9.	District qualified as a low-risk auditee	Yes

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

II. Findings Relating to the Financial Statements Which Are Required to Be Reported in Accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

Finding 2019-001:

- | | |
|------------------------------|-------------|
| a. Condition: | None |
| b. Criteria: | N/A |
| c. Cause: | N/A |
| d. Effect: | N/A |
| e. Recommendation: | N/A |
| f. District Response: | N/A |

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in 6(a) – 6(g) above.

There were **no audit findings or questioned costs for federal awards** that are required to be reported.

**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019**

Finding 2018-001: The District had no findings during the previous year.



**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2019**

The name of the contact person responsible for corrective action:

Dale Snyder, Finance Director

District Phone Number: 254-582-8585.

The corrective action for Finding 2019-001:

N/A. The District had no findings for the current year.

HILLSBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 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 State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101109904	\$ 783,130
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10610101109904	54,841
Total CFDA Number 84.010A			837,971
*IDEA - Part B, Formula	84.027	196600011099046000	400,766
*IDEA - Part B, Formula	84.027	106600011099046000	8,237
Total CFDA Number 84.027			409,003
*IDEA - Part B, Preschool	84.173	196610011099046000	5,026
Total Special Education Cluster (IDEA)			414,029
Career and Technical - Basic Grant	84.048	19420006109904	26,978
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	19696001109904	36,912
Title III, Part A - English Language Acquisition	84.365A	19671001109904	23,363
ESEA, Title II, Part A, Teacher Principal Training	84.367A	19694501109904	61,742
ESEA, Title IV, Part A	84.424A	19680101109904	53,183
ESEA, Title IV, Part A	84.424A	10680101109904	7,867
Total CFDA Number 84.424A			61,050
Total Passed Through State Department of Education			1,462,045
TOTAL U.S. DEPARTMENT OF EDUCATION			1,462,045
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401901	263,826
*National School Lunch Program - Cash Assistance	10.555	71301901	609,390
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301901	70,816
Total CFDA Number 10.555			680,206
*Summer Feeding Program - Cash Assistance	10.559	71301901	3,410
Total Child Nutrition Cluster			947,442
Total Passed Through the State Department of Agriculture			947,442
TOTAL U.S. DEPARTMENT OF AGRICULTURE			947,442
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,409,487

*Clustered Programs

Non-Grant federal program revenue for the current yer included SHARS' receipts of \$790,837. The District did not make payments to sub-recipients during the current year.

HILLSBORO INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 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 and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. 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.
3. The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. 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 un-matured 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.
4. Federal grant funds are recorded as earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
5. The period of 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 30 days beyond the federal project period ending date, in accordance with provisions in the Uniform Guidance.

APPENDIX D

**FORM OF BOND COUNSEL'S
OPINION**



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FINAL

IN REGARD to the authorization and issuance of the “Hillsboro Independent School District Unlimited Tax School Building Bonds, Series 2020” (the Bonds), dated March 1, 2020, in the aggregate original principal amount of \$26,950,000 we have reviewed the legality and validity of the issuance thereof by the Hillsboro Independent School District (the Issuer). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15 in each of the years 2020 through 2026, August 15 in each of the years 2032 through 2040, August 25, 2044, August 15, 2048, and August 15, 2049, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the Order) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. 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. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability 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.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of HILLSBORO INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

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

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

Norton Rose Fulbright US LLP

