

OFFICIAL STATEMENT
Dated: April 21, 2020

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS."

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

\$2,210,000
CADDO MILLS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hunt County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020A

Dated Date: May 1, 2020

Due: August 15, as shown on page i

Interest Accrual Date: Date of Delivery

The Caddo Mills Independent School District (the "District") is issuing its \$2,210,000 Unlimited Tax Refunding Bonds, Series 2020A (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended, and a bond order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on January 21, 2020, in which the Board delegated pricing of the Bonds and certain other matters to an "Authorized Officer" who approved and executed a "Pricing Certificate" which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order"). The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. **Conditional approval has been received by the District from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the date they are initially delivered to the initial purchaser thereof named below (the "Underwriter"), and will be payable on August 15, 2020, and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity.

The District intends to use the Book-Entry-Only System of The Depository Trust Company ("DTC"), but use of such system could be discontinued. The principal of the Bonds at maturity or amounts due upon a prior redemption date will be payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I – SCHEDULE OF BONDS TO BE REFUNDED") and (ii) to pay costs of issuance related to the Bonds (see "THE BONDS – Purpose"). The refunding is being undertaken to lower the District's debt service payments and will result in a present value savings to the District.

CUSIP PREFIX: 127253 / MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page i

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about May 26, 2020 (the "Date of Delivery").

FHN FINANCIAL CAPITAL MARKETS

CUSIP Prefix(2): 127253

MATURITY SCHEDULE

\$1,575,000 Serial Bonds

Maturity Date (8/15)	Principal Amount	Interest Rate	Initial Yield⁽¹⁾	CUSIP Suffix⁽²⁾
2023	\$ 255,000	2.000%	1.200%	SX1
2024	270,000	2.000%	1.250%	SY9
2025	270,000	2.000%	1.300%	SZ6
2026	185,000	3.000%	1.350%	TA0
2027	195,000	3.000%	1.400%	TB8
2028	200,000	3.000%	1.450%	TC6
2029	200,000	3.000%	1.500%	TD4

(Interest to accrue from the Date of Delivery)

\$635,000 Term Bonds

\$150,000 3.000% Term Bond Due August 15, 2032, Priced to Yield 2.000% CUSIP Suffix TE2⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
\$230,000 3.000% Term Bond Due August 15, 2035, Priced to Yield 2.150% CUSIP Suffix TF9⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
\$255,000 3.500% Term Bond Due August 15, 2038, Priced to Yield 2.200% CUSIP Suffix TG7⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

(Interest to accrue from the Date of Delivery)

⁽¹⁾ The initial yields are established by and are the sole responsibility of the Underwriter, and may subsequently be changed.

⁽²⁾ 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. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽³⁾ The District reserves the right, at its option, to redeem Bonds maturing on and after August 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

⁽⁴⁾ Priced to the August 15, 2029, optional redemption date at par.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Financial Advisor or the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

None of the District, the Financial Advisor, or the Underwriter makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under "BOOK-ENTRY-ONLY SYSTEM" or the affairs of the TEA described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by DTC and TEA, respectively.

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

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

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

TABLE OF CONTENTS

INTRODUCTORY STATEMENT.....	1	State, Local and Foreign Taxes.....	32
Infectious Disease Outbreak – COVID-19	1	Information Reporting and Backup Withholding.....	32
THE BONDS.....	2	Qualified Tax-Exempt Obligations for Financial	
Authorization.....	2	Institutions.....	32
Purpose	2	REGISTRATION AND QUALIFICATION OF BONDS	
Refunded Bonds	2	FOR SALE.....	33
General Description	3	STATE AND LOCAL FUNDING OF SCHOOL	
Redemption Provisions	3	DISTRICTS IN TEXAS.....	33
Notice of Redemption	4	Litigation Relating to the Texas Public School Finance	
Security	5	System.....	33
Permanent School Fund Guarantee	5	Possible Effects of Changes in Law on District Bonds..	34
Legality	5	CURRENT PUBLIC SCHOOL FINANCE SYSTEM.....	34
Payment Record.....	5	Overview.....	34
Defeasance of Bonds.....	5	Local Funding for School Districts	35
Sources and Uses of Funds.....	6	State Funding for School Districts	36
THE PERMANENT SCHOOL FUND GUARANTEE		AD VALOREM PROPERTY TAXATION	39
PROGRAM.....	7	Valuation of Taxable Property.....	39
History and Purpose.....	7	State Mandated Homestead Exemptions	40
2019 Texas Legislative Session	8	Local Option Homestead Exemptions	40
The Total Return Constitutional Amendment	9	State Mandated Freeze on School District Taxes	40
Management and Administration of the Fund.....	11	Personal Property.....	40
Capacity Limits for the Guarantee Program	12	Freeport and Goods-In-Transit Exemptions.....	40
The School District Bond Guarantee Program.....	13	Other Exempt Property.....	41
The Charter District Bond Guarantee Program	14	Tax Increment Reinvestment Zones.....	41
Charter District Risk Factors	17	Tax Limitation Agreements.....	41
Infectious Disease Outbreak	18	District and Taxpayer Remedies.....	41
Ratings of Bonds Guaranteed Under the Guarantee		Levy and Collection of Taxes.....	42
Program.....	19	District's Rights in the Event of Tax Delinquencies	42
Valuation of the PSF and Guaranteed Bonds.....	19	THE PROPERTY TAX CODE AS APPLIED TO THE	
Discussion and Analysis Pertaining to Fiscal Year Ended		DISTRICT.....	42
August 31, 2019.....	20	TAX RATE LIMITATIONS	43
2011 and 2019 Constitutional Amendments	22	I&S Tax Rate Limitations	44
Other Events and Disclosures	23	Public Hearing and Voter-Approval Tax Rate	44
PSF Continuing Disclosure Undertaking.....	23	RATINGS	46
Annual Reports.....	23	LEGAL INVESTMENTS AND ELIGIBILITY TO	
Event Notices	24	SECURE PUBLIC FUNDS IN TEXAS.....	46
Availability of Information.....	25	INVESTMENT AUTHORITY AND INVESTMENT	
Limitations and Amendments.....	25	OBJECTIVES OF THE DISTRICT.....	46
Compliance with Prior Undertakings	25	Authorized Investments.....	46
SEC Exemptive Relief	25	Investment Policies.....	48
REGISTERED OWNERS' REMEDIES.....	25	Additional Provisions.....	48
BOOK-ENTRY-ONLY SYSTEM.....	26	Current Investments	49
Use of Certain Terms in Other Sections of this Official		EMPLOYEES' BENEFIT PLANS.....	49
Statement.....	28	CONTINUING DISCLOSURE OF INFORMATION	50
Effect of Termination of Book-Entry-Only System	28	Notices of Certain Events.....	50
REGISTRATION, TRANSFER AND EXCHANGE.....	28	Availability of Information from MSRB.....	51
Paying Agent/Registrar	28	Limitations and Amendments.....	51
Future Registration	29	Compliance with Prior Undertakings	51
Record Date for Interest Payment.....	29	VERIFICATION OF ARITHMETICAL	
Limitation on Transfer of Bonds.....	29	COMPUTATIONS	52
Replacement Bonds	29	LITIGATION	52
LEGAL MATTERS.....	29	FINANCIAL ADVISOR.....	52
TAX MATTERS	30	UNDERWRITING	52
Opinion	30	FORWARD-LOOKING STATEMENTS	53
Federal Income Tax Accounting Treatment of Original		CONCLUDING STATEMENT.....	53
Issue Discount	31	MISCELLANEOUS	53
Collateral Federal Income Tax Consequences	31		
Future and Proposed Legislation.....	32		

SCHEDULE OF BONDS TO BE REFUNDED.....	Schedule I
FINANCIAL INFORMATION REGARDING THE DISTRICT	Appendix A
FORM OF LEGAL OPINION OF BOND COUNSEL	Appendix B
EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2019..	Appendix C

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	Caddo Mills Independent School District (the "District") is a political subdivision of the State of Texas located in Hunt County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see "Appendix A - FINANCIAL INFORMATION REGARDING THE DISTRICT."
Authority for Issuance	The District's Unlimited Tax Refunding Bonds, Series 2020A (the "Bonds") are being issued pursuant to the Constitution and general laws of the State, including, particularly, Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on January 21, 2020. In the Bond Order, the Board delegated to an officer (the "Authorized Officer") of the District authority to complete the sale of the Bonds. The terms of the sale were included in a "Pricing Certificate," which was approved and executed by the Authorized Officer and which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order") (see "THE BONDS - Authorization").
The Bonds	The Bonds shall mature on the dates and in the amounts set forth on page i of this Official Statement. Interest on the Bonds will accrue from the date of their initial delivery to the underwriter listed on the cover of this Official Statement (the "Underwriter") and will be payable on August 15, 2020 and semiannually thereafter on each succeeding February 15 and August 15 of each year until stated maturity or prior redemption (see "THE BONDS - General Description").
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied against all taxable property located within the District, without legal limit as to rate or amount (see "THE BONDS - Security"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, an application has been filed with, and the District has received conditional approval from, the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Use of Proceeds	Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I - SCHEDULE OF BONDS TO BE REFUNDED") and (ii) to pay costs of issuance related to the Bonds (see "THE BONDS - Purpose"). The refunding is being undertaken to lower the District's debt service payments and will result in a present value savings to the District.
Tax Exemption	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.
Qualified Tax-Exempt Obligations	The District will designate the Bonds as "qualified tax-exempt obligations" for the purpose of the calculation of interest expense by financial institutions that may own the Bonds (see "TAX MATTERS" herein).

Redemption Provisions

Bonds maturing on August 15, 2032 and thereafter, are subject to optional redemption by the District on August 15, 2029, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest to the date of redemption. Additionally, the Bonds maturing on August 15, 2032, August 15, 2035 and August 15, 2038 are subject to mandatory sinking fund redemption as described herein (see "THE BONDS - Redemption Provisions" herein).

Ratings

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "A+" by S&P (see "RATINGS").

Book-Entry-Only System The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000, or integral multiples thereof, of principal amount. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity or amounts due upon a prior redemption date 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").

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "REGISTRATION, TRANSFER AND EXCHANGE - Paying Agent/Registrar").

Continuing Disclosure of Information

Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned "CONTINUING DISCLOSURE OF INFORMATION." Also see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.

Payment Record

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

Legality

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality and tax exemption by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see "LEGAL MATTERS" and "TAX MATTERS").

**CADDO MILLS INDEPENDENT SCHOOL DISTRICT
OFFICIALS, STAFF AND CONSULTANTS**

ELECTED OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Rueben Terry, President	2020	Engineer – Level 3 Communications
Eddie Hall, Vice President	2022	State Farm Insurance Agent
Jeff Whitt, Secretary	2022	Texas Farm Bureau Insurance Agent
Keith Hopkins, Member	2021	Fireman
Jake Papageorgiou, Member	2022	Fire Marshall
Barry Stapleton, Member	2021	Operations Manager
Jay Thomason, Member	2023	Area Manager

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Luke Allison	Superintendent of Schools
Keri Allen	Assistant Superintendent
Julie Wiebersch	Secondary Curriculum Director
Kendra Mosher	Elementary Curriculum Director
Becky Pfeil	Business Manager

CONSULTANTS AND ADVISORS

Auditors..... Rutherford, Taylor & Company, P.C., CPAs
Greenville, Texas

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

Financial Advisor Live Oak Public Finance, LLC
Austin, Texas

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OFFICIAL STATEMENT RELATING TO
\$2,210,000
CADDO MILLS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hunt County, Texas)
UNLIMITED TAX REFUNDING BONDS
SERIES 2020A

INTRODUCTORY STATEMENT

This Official Statement, including Schedules I and Appendices A and C, has been prepared by the Caddo Mills Independent School District located in Hunt County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds"), identified on the cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), 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 upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Highway, Suite 206, Austin, Texas 78746.

This Official Statement speaks only as of its date and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for information regarding the EMMA system and for a description of the District's undertaking to provide certain information on a continuing basis.

Infectious Disease Outbreak – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on April 27, 2020 of Executive Order GA-18, which order remains in effect until May 15, 2020 unless otherwise modified, amended, rescinded, or superseded by the Governor. Executive Order GA-18, among other things, addressed limitations on social gatherings and in-person contact except where necessary to provide or obtain essential services or reopened services as such services are defined in state and federal guidance and future executive orders or proclamations of the Governor. Executive Order GA-18 temporarily closed public and private schools throughout the state to in-person classroom attendance through the end of the 2019-2020 school year.

In addition to the actions by the state and federal officials, local officials have declared a local state of disaster. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District has developed remote instructional resources for its students and is currently delivering remote instruction. Therefore, the District does not anticipate a reduction in state funding as a result of the school closures at this time. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. See "AD VALOREM PROPERTY TAXATION." The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

THE BONDS

Authorization

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including, particularly, Chapter 1207, Texas Government Code, as amended, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the District's Board of Trustees (the "Board") on January 21, 2020. In the Bond Order, the Board delegated to an officer (the "Authorized Officer") of the District authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order"). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

Purpose

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

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent") pursuant to an Escrow Agreement (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the Underwriter, the District will deposit with the Escrow Agent an amount, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase direct noncallable obligations of the United States (the

"Escrow Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds.

Public Finance Partners will verify at the time of delivery of the Bonds to the Underwriter that the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their redemption date. Neither cash nor the maturing principal of and interest on the Escrow Securities will be available to pay the debt service on the Bonds (see "VERIFICATION OF ARITHMETICAL COMPUTATIONS").

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

General Description

The Bonds shall be dated May 1, 2020. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and transfer agent (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

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

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date (the "Record Date") for determining the party to whom interest on a Bond is payable on any interest payment date for the Bonds is the close of business on the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment"). The principal of the Bonds at maturity or on a prior redemption date will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption, as applicable; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds are to mature on the dates and in the principal amounts shown on page i hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the date they are initially delivered to the initial purchaser thereof (the "Underwriter"), at the interest rates shown on page i hereof and such interest shall be payable to the registered owners thereof commencing on August 15, 2020, and semiannually thereafter on each succeeding February 15 and August 15 until stated maturity or prior redemption.

Redemption Provisions

Optional Redemption

The Bonds maturing on or after August 15, 2032, are subject to redemption prior to stated maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

If less than all of the Bonds are to be redeemed, the District may select the maturities and amounts of Bonds to be redeemed. If less than a whole maturity is called, the Bonds to be redeemed (only in integral multiples of \$5,000 in principal amount) shall be selected by the Paying Agent/Registrar by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Mandatory Sinking Fund Redemption

Term Bonds Maturing August 15, 2032	
Year	Principal Amount
2030	\$50,000
2031	50,000
2032*	50,000

Term Bonds Maturing August 15, 2035	
Year	Principal Amount
2033	\$55,000
2034	95,000
2035*	80,000

Term Bonds Maturing August 15, 2038	
Year	Principal Amount
2036	\$135,000
2037	55,000
2038*	65,000

*Stated Maturity

The principal amount of the Term Bonds of a stated maturity required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the Issuer, by the principal amount of any Term Bonds of the same maturity which, at least forty-five (45) days prior to a mandatory redemption date (1) shall have been acquired by the Issuer at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, 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 Issuer at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption of the Bonds, the District shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

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

so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount, as provided in the Order. Additionally, the District has applied for and received from the Texas Education Agency conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

Permanent School Fund Guarantee

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

In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see "THE BONDS - Defeasance of Bonds").

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 opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas (see "LEGAL MATTERS" and "Appendix B - FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

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

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when 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 or otherwise), is provided by irrevocably depositing with a paying agent or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and

proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of the refunding bonds are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

Sources and Uses of Funds

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

Sources:

Principal Amount of the Bonds	\$ 2,210,000.00
Original Issue Reoffering Premium on the Bonds	\$ 169,744.10
Total Sources of Funds	\$ 2,379,744.10

Uses:

Deposit to Escrow Fund	\$ 2,295,013.86
Costs of Issuance and Underwriter's Discount	\$ 80,471.32
Deposit to Interest and Sinking Fund	\$ 4,258.92
Total Uses of Funds	\$ 2,379,744.10

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 million.

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

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the “86th Session”), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that 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. 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 March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At March 24, 2020, there were 183 active open-enrollment charter schools in the State and there were 790 charter school campuses operating under such charters (though as of such date, four of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney

General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the “CDBG Capacity”), which further increased the amount of the CDBG Capacity, beginning with State fiscal year 2018, but that provision of the law does not

increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” and “2017 Legislative Changes to the Charter District Bond Guarantee Program.” Other factors that could increase the 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. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria

set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBG 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 February 29, 2020, the Charter District Reserve Fund contained \$35,183,564, which represented approximately 1.49% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those

school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF.

Infectious Disease Outbreak

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

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

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

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

TEA Continuity of Operations

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

Impact of COVID-19 on School Districts and Charter Districts

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, PSF management is of the view that scheduled bond payments for school districts for the 2020 calendar

year are unlikely to be affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding, among other matters, the closure of schools, and TEA has established waivers for payment to school districts and charter districts, as such payments are in large part based on school attendance. Those waivers are intended to provide continued funding during the period of closure, although certain of the waivers require schools to provide on-line or at home curriculum in order to benefit from waivers. Reference is made to "Charter School Risk Factors," herein for a description of unique circumstances that pertain to the funding of charter districts.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year 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 February 29, 2020, the PSF had a book value of \$35,908,691,818 and a market value of \$46,992,040,588. February 29, 2020 values are based on unaudited data, which is subject to adjustment.

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾						
Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	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 February 29, 2020 (based on unaudited data, which is subject to adjustment), there were \$87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating \$85,321,228,251 in principal amount and 54 charter district issues, aggregating \$2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

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

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

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The

implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

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

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

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

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

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

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

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

2011 and 2019 Constitutional Amendments

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

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

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

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

Changes in the Distribution Rate for each biennial period 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.

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of principal and interest on the Bonds, when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, and the State fails to honor the

Permanent School Fund Guarantee as hereinafter discussed, with respect to the Bonds, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of governmental immunity and by general principles of equity which permit the exercise of judicial discretion.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and principal of, premium, if any, , redemption payments and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy or completeness thereof.

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

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

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

instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct 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 Paying Agent/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 the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

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

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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date for Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange (i) with respect to Bonds, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

LEGAL MATTERS

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

Though it represents the Financial Advisor and the Underwriter 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. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the last paragraph under "Notice of Redemption," "Permanent School Fund Guarantee," "Payment Record" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "LEGAL MATTERS" (except for the last two sentences of the second paragraph hereof), "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (except the last sentence of the second paragraph under the subcaption "I&S Tax Rate Limitations"), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell LLP, Dallas, Texas. The legal fee of such firm is contingent upon the sale and 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.

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and the report relating to the amount of funds needed to deposit to the Escrow Fund, (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith, (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, and (d) the report of Public Finance Partners, LLC as to the sufficiency of the deposit to the Escrow Fund to redeem the obligations refunded with proceeds of the Bonds. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on

indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, nor has the United States Securities and

Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriter to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriter's written request and 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.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) ("Morath"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our

system is optimal, but whether it is constitutional. Our Byzantine school funding "system" is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

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

Local Funding for School Districts

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

State Compression Percentage.

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

Maximum Compressed Tax Rate.

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

Tier One Tax Rate.

For the 2019-2020 school year, the Tier One Tax Rate is the State Compression Percentage multiplied by (i) \$1.00, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than \$1.00 per \$100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively

setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at \$0.93. Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

Enrichment Tax Rate.

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

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

State Funding for School Districts

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

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

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

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

Tier One.

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

the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

Tier Two.

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

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

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

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

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

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

Tax Rate and Funding Equity.

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

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

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

Local Revenue Level in Excess of Entitlement.

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

are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Options for Local Revenue Levels in Excess of Entitlement.

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

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 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 Hunt 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 "TAX INFORMATION – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code

permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

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 "TAX INFORMATION – District Application of Tax Code" herein.

District and Taxpayer Remedies

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

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

property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

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

The District grants a local option, additional exemption of \$5,000 for persons who are 65 years of age or older (but not disabled persons) above the amount of the State-mandated exemption.

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

The District does not tax non-business personal property.

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

The District does not exempt "freeport property" from taxation.

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

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

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

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

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

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 3, 2003 in accordance with the provisions of Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code, as amended).

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

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

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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 \$1.00; (ii) the greater of (a) the school district's M&O tax rate for the 2018 tax year, less the sum of (1) \$1.00,

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

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

RATINGS

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), has assigned a municipal bond rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "A+" by S&P.

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 any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company, if in the judgment of such company, circumstances so warrant. Due to the ongoing political uncertainty regarding the United States of America debt limit, obligations issued by State and local governments in the United States, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the ratings of, market for, and market value of outstanding debt obligations, including the Bonds. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 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 are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of 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 "RATINGS"). 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

Authorized Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the

United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the

United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order or resolution.

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.

Current Investments

As of August 31, 2019, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Lone Star Investment Pool ("Lone Star") ^(A)	\$ 4,769,843	86.43%
Texas Short Term Asset Reserve Program ("TexSTAR") ^(A)	748,809	13.57%
Total	\$ 5,518,652	100%

^(A) Lone Star and TexSTAR operate pursuant to Chapter 2256 of the Texas Government Code, as amended. Lone Star and TexSTAR operate as a money market equivalent, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940. No funds of the District are invested in derivative securities, i.e. securities whose rate or return is determined by reference to some other instrument, index or commodity. TexSTAR is co-administered by First Southwest Asset Management LLC, the investment affiliate of Hilltop Securities Inc., the Underwriter of the Bonds.

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended August 31, 2019, the State contributed \$545,520 to TRS on behalf of the District. For the year ended August 31, 2019, the District employees paid \$869,606 and other contributions into the plan made from federal and private grants and the District for salaries above the statutory minimum were \$315,932. For more detailed information concerning the Plan, TRS's net pension liability with respect thereto and the District's proportionate share of such net pension liability, see Note F to the District's audited financial statements attached hereto as Appendix C.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Note G to the District's audited financial statements attached hereto as Appendix C. See also Note H to the District's audited financial statements attached hereto as Appendix C for a description of the District's employee health coverage plan.

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

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

are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 19 in "Appendix A - FINANCIAL INFORMATION REGARDING THE DISTRICT" and in Appendix C, which is the District's annual audited financial report. The District will update and provide the annual financial information appearing in the numbered tables described in the preceding sentence within six months after the end of each fiscal year ending in and after 2020 and, if not submitted as part of the annual financial information, the District will provide its audited annual financial report when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes 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, the District must provide updated information included in the above-referenced tables by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Notices 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default,

remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". 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. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and 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. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

VERIFICATION OF ARITHMETICAL COMPUTATIONS

Public Finance Partners, a firm of independent public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds.

The verification performed by Public Finance Partners will be solely based upon data, information and documents provided to Public Finance Partners by Live Oak Public Finance, LLC on behalf of the District. Public Finance Partners has restricted its procedures to recalculating the computations provided by Live Oak Public Finance, LLC on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

LITIGATION

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

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

FINANCIAL ADVISOR

Live Oak Public Finance, LLC is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of debt proceeds or other funds of the District, upon the request of the District.

Live Oak Public Finance, LLC, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering price to the public, as shown on page i of this Official Statement, less an underwriting discount of \$16,409.15, and no accrued interest. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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.

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.

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

FORWARD-LOOKING STATEMENTS

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

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

CONCLUDING STATEMENT

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

MISCELLANEOUS

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

In the Bond Order, the Board authorized the Authorized Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

/s/ Luke Allison
Superintendent
Caddo Mills Independent School District

SCHEDULE I

SCHEDULE OF BONDS TO BE REFUNDED

Caddo Mills Independent School District Unlimited Tax Refunding Bonds, Series 2010

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>CUSIP</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
210,000.00	08/15/2021	4.000%	127253PP1	08/15/2020	100.00
215,000.00	08/15/2022	4.000%	127253PQ9	08/15/2020	100.00
220,000.00	08/15/2023	4.000%	127253PR7	08/15/2020	100.00
235,000.00	08/15/2024	4.000%	127253PS5	08/15/2020	100.00
240,000.00	08/15/2025	4.000%	127253PT3	08/15/2020	100.00
160,000.00	08/15/2026	(1) 4.000%	127253PU0	08/15/2020	100.00
170,000.00	08/15/2027	(1) 4.000%	127253PU0	08/15/2020	100.00
175,000.00	08/15/2028	(1) 4.000%	127253PU0	08/15/2020	100.00
180,000.00	08/15/2029	(2) 4.500%	127253PV8	08/15/2020	100.00
30,000.00	08/15/2030	(2) 4.500%	127253PV8	08/15/2020	100.00
30,000.00	08/15/2031	(2) 4.500%	127253PV8	08/15/2020	100.00
30,000.00	08/15/2032	(2) 4.500%	127253PV8	08/15/2020	100.00
35,000.00	08/15/2033	(2) 4.500%	127253PV8	08/15/2020	100.00
30,000.00	08/15/2034	(2) 4.500%	127253PV8	08/15/2020	100.00
35,000.00	08/15/2035	(2) 4.500%	127253PV8	08/15/2020	100.00
40,000.00	08/15/2036	(2) 4.500%	127253PV8	08/15/2020	100.00
35,000.00	08/15/2037	(2) 4.500%	127253PV8	08/15/2020	100.00
40,000.00	08/15/2038	(2) 4.500%	127253PV8	08/15/2020	100.00
40,000.00	08/15/2039	(2) 4.500%	127253PV8	08/15/2020	100.00

(1) Represents a mandatory sinking fund redemption for the Term Bonds with a stated maturity of August 15, 2028

(2) Represents a mandatory sinking fund redemption for the Term Bonds with a stated maturity of August 15, 2039

Caddo Mills Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2003

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
08/15/2034	\$7,477.20	\$45,000.00	05/26/2020	100.00
08/15/2035	\$3,920.50	\$25,000.00	05/26/2020	100.00

Caddo Mills Independent School District Unlimited Tax Refunding Bonds, Series 2005

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Coupon</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
\$70,000.00	08/45/2036	4.650%	05/26/2020	100.00

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
ASSESSED VALUATION ⁽¹⁾

ASSESSED VALUATION	
	2019
	<u>Tax Year</u>
Total Market Valuation ⁽¹⁾	\$ 966,947,158
Net Taxable Valuation before Freeze ⁽¹⁾	\$ 626,944,426
Net Freeze Adjusted Taxable Valuation ⁽¹⁾	\$ 563,961,947
Increase from Prior Year	15.85%
<u>Exemptions/Deductions/Prorations Detail ⁽¹⁾</u>	<u>Total</u>
Totally Exempt Property	\$ 70,214,379
Agriculture Use/Productivity	176,198,491
Residential Homestead	48,556,700
Cap Value Loss	24,432,778
Residential Homestead Over-65 and/or Disabled (\$10,000)	17,180,699
Disabled/Deceased Veterans and Survivors (up to \$ 3,000)	1,635,524
Pollution Control	1,670,670
First Responder's Surviving Spouse	113,491
Other/Misc	-
Total	\$ 340,002,732
<small>(1) Source: Hunt County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Hunt County Appraisal District updates records.</small>	

Table 2
TAX DEBT OUTSTANDING ⁽¹⁾⁽²⁾

Outstanding Unlimited Tax Bonds (as of August 16, 2019)	
Current Interest Bonds	\$ 27,789,000
Capital Appreciation Bonds	\$ 705,462
Total	\$ 28,494,462
Less:	
Estimated Interest & Sinking Fund Balance (as of August 31, 2019) ⁽²⁾	\$ 1,987,731
Net General Obligation Debt	\$ 26,506,731
Ratio Net General Obligation Debt to Net Taxable Valuation before Freeze	4.22%

2019/20 Population Estimate ⁽¹⁾	7,870	Per Capita Actual Valuation	122,865
2019/20 Enrollment ⁽¹⁾	1,921	Per Capita Net Valuation	79,663
Area (Square Miles) ⁽¹⁾	68.73	Per Capita Actual Net General Obligation Debt	3,368

(1)Source Municipal Advisory council of Texas.

(2) Audited financial statements.

Table 3
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	As Of	% To Overlap	\$Overlap
City of Caddo Mills	\$ 6,102,000	01/31/20	100.00%	\$ 6,102,000
Hunt County	7,375,000	01/31/20	7.99%	589,263
Hunt Memorial Hospital District	19,575,000	01/31/20	7.99%	1,564,043
Total Net Overlapping Debt ⁰¹				\$ 8,255,305
Caddo Mills ISD	\$ 28,494,462		100.00%	28,494,462
Total Direct (Net) and Overlapping Debt				36,749,767
				5.86%
Direct and Overlapping Debt to Net taxable Valuation				3.80%
Direct and Overlapping Debt to Actual Total Valuation				4,669
Per Capita Direct and Overlapping Debt				

(1)Source: Municipal Advisory Council of Taxes

(2) Includes principal amounts of all bonds – current interest bonds, convertible bonds, and capital appreciation bonds at original principal amount.

Table 4
2019/2020 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

<u>Taxing Body</u>	<u>Tax Rate</u>	<u>Tax Year</u>
City of Caddo Mills	\$ 0.657	2019
Hunt County	0.509	2019
Hunt Memorial Hospital District	0.230	2019

(1) Source: Municipal Advisory Council of Texas

INVESTMENT DATA

As of August 31, 2019 ⁽¹⁾, the District's investable funds were invested in the following categories:

<u>Description</u>	<u>% of Funds Invested</u>	<u>Book Value</u>	<u>Market Value</u>
Lonestar	86.43%	\$ 4,769,843	\$ 4,769,843
TexSTAR	13.57%	748,809	748,809
		<u>\$ 5,518,652</u>	<u>\$ 5,518,652</u>

⁽¹⁾ Audited financial statement for 2018/19.

Table 5
PROPERTY TAX RATES AND COLLECTIONS

Net			% Collections within Fiscal Year		
Tax Year	Taxable Valuation ⁽¹⁾	Tax Rate	Current ⁽²⁾	Current & Delinquent ⁽²⁾	FYE
2014	\$ 377,154,120	\$ 1.5010	97.75	99.28	08/31/15 ⁽³⁾
2015	374,176,242	1.4550	98.36	100.69	08/31/16 ⁽³⁾
2016	401,344,992	1.4550	98.34	100.09	08/31/17 ⁽³⁾
2017	468,821,803	1.4550	98.24	99.38	08/31/18 ⁽³⁾
2018	541,164,900	1.4550	<u>98.25</u>	<u>99.55</u>	08/31/19 ⁽³⁾
Five Year Average.....			98.19	99.80	

Net			% Collections within Fiscal Year		
Tax Year	Taxable Valuation ⁽¹⁾	Tax Rate	Current ⁽²⁾	Current & Delinquent ⁽²⁾	FYE
2019	\$ 626,944,426	\$ 1.3534	(in process)		08/31/20 ⁽⁴⁾

(1) Source: Hunt Central Appraisal Districts' Assessment Report as of Certification - includes frozen values.

(2) Excludes Penalty and Interest.

(3) Source: Audited financial statements and records.

(4) Unaudited.

Table 6⁽¹⁾
TAX RATE DISTRIBUTION

<u>Fiscal Year</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Local Maintenance	\$ 1.0684	\$ 1.1700	\$ 1.0400	\$ 1.0400	\$ 1.0400	\$ 1.0400
Interest & Sinking	0.2850	0.2850	0.4150	0.4150	0.4150	0.4610
Total	\$ 1.3534	\$ 1.4550	\$ 1.4550	\$ 1.4550	\$ 1.4550	\$ 1.5010

Table 7⁽¹⁾
VALUATION AND UNLIMITED TAX DEBT HISTORY

<u>Fiscal Year</u>	<u>Principal Outstanding</u>	<u>Ratio to Taxable Value</u>
2014/15	\$ 31,094,089	8.24%
2015/16	\$ 30,245,376	8.08%
2016/17	\$ 29,489,860	7.35%
2017/18	\$ 28,164,860	6.01%
2018/19	27,264,860	5.04%

Source: District records and Municipal Advisory Council of Texas

Table 8
HISTORICAL TOP TEN TAXPAYERS

2019 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS			
<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% AV</u>
Explorer Pipeline Co.	Oil & Gas Pipeline	\$ 11,450,400	2.03%
Sunoco Partners Marketing & Terminals	Oil & Gas Pipeline	8,289,440	1.47%
Motiva Enterprise LLC	Oil & Gas Refinery	6,401,740	1.14%
Hixson Lumber Sales Inc.	Lumber Processing	6,002,625	1.06%
Allen National Property LLC	Wholesale Supplier/Distribution Center	4,515,100	0.80%
Kinder Morgan Texas Pipeline	Oil & Gas Pipeline	4,160,840	0.74%
Polara Enterprises	Industrial Manufacturing	3,975,460	0.70%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	3,564,560	0.63%
QT Fuel Inc.	Wholesale Supplier/Distribution Center	2,713,510	0.48%
JCTP LLC	Industrial Manufacturing	2,514,280	0.45%
Total.....		<u>\$ 53,587,955</u>	<u>9.50%</u>
2018 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS			
<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% AV</u>
Explorer Pipeline Co.	Oil & Gas Pipeline	\$ 11,686,600	2.39%
Amid Caddo LLC	Oil & Gas	8,500,220	1.74%
Hixson Lumber Sales Inc.	Lumber Processing	6,253,690	1.28%
Murphy Oil USA Inc.	Oil & Gas	4,141,070	0.85%
Kinder Morgan Texas Pipeline	Oil & Gas Pipeline	3,833,000	0.78%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	3,542,000	0.72%
Valero Marketing & Supply Co.	Oil & Gas Refinery	3,465,814	0.71%
Allen National Property LLC	Wholesale Supplier/Distribution Center	3,384,290	0.69%
QT Fuel Inc.	Wholesale Supplier/Distribution Center	3,133,700	0.64%
Motiva Enterprise LLC	Oil & Gas Refinery	2,970,570	0.61%
Total.....		<u>\$ 50,910,954</u>	<u>10.41%</u>
2017 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS			
<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Explorer Pipeline Co.	Oil & Gas	\$ 10,901,560	2.41%
JP Energy Caddo LLC	Oil & Gas	9,404,770	2.08%
Hixson Lumber Sales Inc.	Lumber Processing	4,606,440	1.02%
Exxon Mobil Corporation	Oil & Gas	4,333,760	0.96%
Kinder Morgan N Texas Pipeline	Oil & Gas Pipeline	3,977,220	0.88%
QT Fuel Inc.	Gas Station	3,761,660	0.83%
Motiva Enterprise LLC	Oil & Gas	3,517,800	0.78%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	2,892,200	0.64%
Allen National Property LLC	Commercial Building	2,810,570	0.62%
American National Logistics Inc.	Shipping/Freight	2,715,280	0.60%
Total.....		<u>\$ 48,921,260</u>	<u>10.82%</u>
2016 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS			
<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Explorer Pipeline Co.	Oil & Gas	\$ 11,169,210	2.85%
JP Energy Caddo LLC	Chemical/Oil & Gas Storage	9,886,930	2.53%
American National Logistics Inc.	Shipping/Freight	5,371,730	1.37%
Hixson Lumber Sales Inc.	Lumber Processing	4,656,880	1.19%
Kinder Morgan N Texas Pipeline	Oil & Gas Pipeline	4,014,480	1.03%
Exxon Mobil Corporation	Oil & Gas	3,736,720	0.95%
Valero Marketing & Supply Co.	Oil & Gas	3,369,590	0.86%
Motiva Enterprise LLC	Oil & Gas	3,281,930	0.84%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	2,924,960	0.75%
Allen National Property LLC	Commercial Building	2,588,960	0.66%
Total.....		<u>\$ 51,001,390</u>	<u>13.03%</u>
2015 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS			
<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>% A.V.</u>
Explorer Pipeline Co.	Oil & Gas	\$ 12,121,000	3.30%
JP Energy Caddo LLC	Chemical/Oil & Gas Storage	10,660,370	2.90%
Exxon Mobil Corporation	Oil & Gas	5,605,800	1.53%
Hixson Lumber Sales Inc.	Lumber Processing	4,699,020	1.28%
Kinder Morgan N Texas Pipeline	Oil & Gas	4,057,810	1.10%
Chevron Products	Oil & Gas	3,395,510	0.92%
Delek U.S.	Oil & Gas	3,345,610	0.91%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	3,154,030	0.86%
Verizon Southwest	Telephone Utility	3,074,510	0.84%
Murphy Oil Corp.	Oil & Gas	2,851,230	0.78%
Total.....		<u>\$ 52,964,890</u>	<u>14.42%</u>

Source: Hunt County Appraisal District and District records.

Table 9
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Property Use Category</u>	<u>Total Assessed Valuation for Tax Years ⁽¹⁾</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Single-Family Residential	\$ 293,211,788	\$ 244,813,579	\$ 204,955,876	\$ 167,557,981	\$ 148,817,805
Multi-Family Residential	3,037,940	1,924,739	1,759,960	1,647,120	1,444,210
Vacant Lots/Tracts	8,516,280	5,091,280	4,942,290	4,841,065	4,108,030
Acreage (Land Only)	185,888,780	161,545,455	147,395,822	121,877,558	107,408,631
Farm and Ranch Improvements	244,744,389	212,870,205	180,699,660	153,002,521	139,514,071
Commercial and Industrial	53,004,564	48,323,832	41,591,920	35,655,387	32,498,518
Inventory	6,557,257	3,510,260	2,055,440	1,839,545	1,828,250
Business, Tangible	79,089,414	72,681,934	71,421,920	65,908,947	70,968,738
Other, Tangible	4,150,777	3,660,290	2,435,140	1,950,250	1,971,560
Totally Exempt Property	70,214,379	-	-	-	-
Utilities	18,531,590	18,228,180	19,796,420	19,940,370	21,649,940
Total Market Valuation	\$ 966,947,158	\$ 772,649,754	\$ 677,054,448	\$ 574,220,744	\$ 530,209,753
 <u>Less Adjustments:</u>					
Residential Homestead	\$ 48,556,700	\$ 46,152,169	\$ 43,803,920	\$ 42,959,137	\$ 42,269,968
Cap Value Loss	24,432,778	15,801,774	11,401,295	3,359,071	1,083,117
Residential Homestead Over-65	8,355,412	7,635,616	6,985,797	6,746,723	6,658,007
Disabled Persons	632,161	630,453	509,834	550,599	643,283
Disabled/Deceased Veterans and Survivors	9,828,650	7,120,482	4,794,253	3,567,443	2,993,186
Pollution Control	1,670,670	1,670,600	1,671,010	1,703,900	1,681,300
Productivity Loss	176,198,491	152,372,859	139,066,536	113,988,879	100,704,650
First Responder's Surviving Spouse	113,491	100,901	-	-	-
Totally Exempt Property	70,214,379	-	-	-	-
Total Exemptions	\$ 340,002,732	\$ 231,484,854	\$ 208,232,645	\$ 172,875,752	\$ 156,033,511
 Net Taxable Valuation before Freeze ⁽²⁾	\$ 626,944,426	\$ 541,164,900	\$ 468,821,803	\$ 401,344,992	\$ 374,176,242

(1) Source: Hunt Central Appraisal Districts' Assessment Report as of Certification.

(2) Includes Frozen Values.

Table 10
PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>Percent of Total Assessed Valuation for Tax Years</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Single-Family Residential	30.32%	31.68%	30.27%	29.18%	28.07%
Multi-Family Residential	0.31%	0.25%	0.26%	0.29%	0.27%
Vacant Lots/Tracts	0.88%	0.66%	0.73%	0.84%	0.77%
Acreage (Land Only)	19.22%	20.91%	21.77%	21.22%	20.26%
Farm and Ranch Improvements	25.31%	27.55%	26.69%	26.65%	26.31%
Commercial and Industrial	5.48%	6.25%	6.14%	6.21%	6.13%
Inventory	0.68%	0.45%	0.30%	0.32%	0.34%
Business, Tangible	8.18%	9.41%	10.55%	11.48%	13.39%
Other, Tangible	0.43%	0.47%	0.36%	0.34%	0.37%
Totally Exempt Property	7.26%	0.00%	0.00%	0.00%	0.00%
Utilities	<u>1.92%</u>	<u>2.36%</u>	<u>2.92%</u>	<u>3.47%</u>	<u>4.08%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Note: Totals may not equal 100% due to rounding.

Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE

Fiscal Year Ended 8/31	Current Interest Bonds ⁽¹⁾			Capital Appreciation Bonds ⁽¹⁾			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 995,000	\$ 1,027,091	\$ 2,022,091	\$ -	\$ -	\$ -	\$ 2,022,091
2021	815,000	996,350	1,811,350	-	-	-	1,811,350
2022	850,000	969,800	1,819,800	-	-	-	1,819,800
2023	1,130,000	942,100	2,072,100	-	-	-	2,072,100
2024	1,170,000	908,450	2,078,450	-	-	-	2,078,450
2025	1,200,000	873,725	2,073,725	-	-	-	2,073,725
2026	1,005,000	833,825	1,838,825	14,450	190,550	205,000	2,043,825
2027	1,045,000	795,475	1,840,475	10,896	194,104	205,000	2,045,475
2028	1,085,000	755,625	1,840,625	8,016	191,984	200,000	2,040,625
2029	1,125,000	714,225	1,839,225	6,346	203,654	210,000	2,049,225
2030	670,000	671,225	1,341,225	13,896	596,104	610,000	1,951,225
2031	695,000	644,925	1,339,925	10,480	599,520	610,000	1,949,925
2032	680,000	617,625	1,297,625	8,353	636,647	645,000	1,942,625
2033	1,255,000	589,125	1,844,125	1,026	103,974	105,000	1,949,125
2034	1,405,000	540,175	1,945,175	-	-	-	1,945,175
2035	1,435,000	485,025	1,920,025	-	-	-	1,920,025
2036	1,010,000	429,425	1,439,425	30,000	455,000	485,000	1,924,425
2037	805,000	389,700	1,194,700	45,000	680,000	725,000	1,919,700
2038	1,215,000	357,775	1,572,775	20,000	335,000	355,000	1,927,775
2039	1,545,000	309,500	1,854,500	-	-	-	1,854,500
2040	1,900,000	247,700	2,147,700	-	-	-	2,147,700
2041	1,980,000	171,700	2,151,700	-	-	-	2,151,700
2042	2,060,000	87,550	2,147,550	-	-	-	2,147,550
2043	-	-	-	-	-	-	-
2044	-	-	-	-	-	-	-
2045	-	-	-	-	-	-	-
2046	-	-	-	-	-	-	-
2047	-	-	-	-	-	-	-
2048	-	-	-	-	-	-	-
2049	-	-	-	-	-	-	-
2050	-	-	-	-	-	-	-
2051	-	-	-	-	-	-	-
TOTAL	\$ 27,075,000	\$ 14,358,116	\$ 41,433,116	\$ 168,463	\$ 4,186,537	\$ 4,355,000	\$ 45,788,116

(1) Source is Municipal Advisory Council of Texas TMR Report.

Table 12
INTEREST & SINKING FUND BUDGET INFORMATION⁽¹⁾

Interest & Sinking Fund Balance, 09/01/19 (Beginning)		\$ 1,987,731
Estimated Tax Supported Debt Service Requirements for FY Ended 2020	\$ 2,054,938	
Projected Interest & Sinking Fund Local Revenue	\$ 1,672,989	
Debt Subsidy from Texas Education Agency	\$ 374,005	
Transfers in/(Out)	\$ -	
Projected Interest & Sinking Fund Balance, 08/31/20 (Ending)		\$ 1,979,788
Net Increase/(Decrease) in Fund Balance		\$ (7,944)

⁽¹⁾ Source: TEA Summary of Finances and District records.

Table 13
AUTHORIZED BUT UNISSUED BONDS

NONE

BOND ELECTION

On February 7, 2020, the District called for a bond election to be held May 2, 2020. The bond election consists of Proposition A in the amount of \$90,000,000. As a result of the Texas Governor's March 18, 2020 proclamation regarding the impacts of COVID-19, the May 2, 2020 bond election has been moved to November 3, 2020. In addition to unlimited tax bonds, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Table 14
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Projected Maximum P&I Requirements	\$	2,151,700
\$ 0.50 Tax rate on 2019 Certified Taxable Assessed Valuation at 98% collection produces	\$	3,072,028
Projected Average P&I Requirements	\$	1,990,787
\$ 0.50 Tax rate on 2019 Certified Taxable Assessed Valuation at 98% collection produces	\$	3,072,028

Table 15
LIMITED TAX DEBT SERVICE REQUIREMENTS ^(A)

Fiscal Year	Principal	Interest	Total Debt Service
2019/20	\$ 100,000	\$ 33,277	\$ 133,277
2020/21	103,000	30,617	133,617
2021/22	105,000	27,877	132,877
2022/23	107,000	25,084	132,084
2023/24	110,000	22,238	132,238
2024/25	113,000	19,312	132,312
2025/26	116,000	16,306	132,306
2026/27	119,000	13,220	132,220
2027/28	122,000	10,055	132,055
2028/29	126,000	6,810	132,810
2029/30	130,000	3,458	133,458
Total	<u>\$ 1,251,000</u>	<u>\$ 208,251</u>	<u>\$ 1,459,251</u>

^(A) Payable from the District's M&O tax rate.

Table 16
TAX ADEQUACY WITH RESPECT TO LIMITED TAX DEBT SERVICE REQUIREMENTS ⁽¹⁾

Year 2019/20 P & I Requirements ⁽¹⁾	\$ 133,277
\$0.0217 Tax rate on 2019 Certified Taxable Assessed Valuation at 98% collection produces	\$ 133,326
Maximum (2020/21) P & I Requirements ⁽¹⁾	\$ 133,617
\$0.0218 Tax rate on 2019 Certified Taxable Assessed Valuation at 98% collection produces	\$ 133,940

⁽¹⁾ Payable from the District's M&O tax rate.

Table 17
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ending August 31,				
	2019	2018	2017	2016	2015
Assets:					
Cash and Temporary Investments	\$ 4,811,536	\$ 5,852,945	\$ 5,251,017	\$ 6,102,542	\$ 6,351,876
Receivables:					
Property Taxes	280,210	218,353	191,787	196,775	216,193
Due from other governments	1,158,949	721,972	931,550	777,721	269,501
Other Receivables	12,349	5,250	4,990	7,000	3,000
Due from other funds	-	-	-	-	-
Allowance for uncollectible taxes	-	-	-	-	-
Accrued Interest	-	-	-	-	-
Inventories, at cost	12,838	35,032	16,314	16,729	16,360
Prepaid Assets	-	-	-	-	-
Total Assets	\$ 6,275,882	\$ 6,833,552	\$ 6,395,658	\$ 7,100,767	\$ 6,856,930
Deferred inflows of resources:					
Deferred revenue - property taxes	\$ 280,210	\$ 218,353	\$ 191,787	\$ 196,775	\$ 216,193
Liabilities, Deferred Inflows, and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 102,774	\$ 12,114	\$ 14,048	\$ 390,171	\$ 45,384
Payroll deductions and withholdings payable	82	(2,454)	(1,187)	(2,662)	1,213
Accrued wages payable	778,086	741,507	691,666	565,715	369,128
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Due to student and employee groups	-	-	-	-	-
Accrued Expenditures	16,556	15,725	14,643	11,158	7,002
Deferred Revenue	66,510	68,000	71,500	70,000	180,529
Total Liabilities	\$ 964,008	\$ 834,892	\$ 790,670	\$ 1,034,382	\$ 603,256
Fund Equity:					
Non-Spendable:					
Inventories	\$ 12,838	\$ 35,032	\$ 16,314	\$ 16,729	\$ 16,360
Prepaid items	-	-	-	-	-
Committed:					
Construction	2,324,498	2,324,498	2,324,498	2,324,498	3,610,820
Assigned:					
Other purposes	161,804	-	-	-	192,012
Unassigned fund balance	2,532,524	3,420,777	3,072,389	3,528,383	2,218,289
Total Liabilities	\$ 5,031,664	\$ 5,780,307	\$ 5,413,201	\$ 5,869,610	\$ 6,037,481
Total Liabilities & Fund Equity	\$ 6,275,882	\$ 6,833,552	\$ 6,395,658	\$ 7,100,767	\$ 6,856,930

Source: District's Audited Financial Statements

Table 18
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ending August 31,									
	2019		2018		2017		2016		2015	
Revenues:										
Local and Intermediate Sources	\$	6,515,116	\$	5,150,685	\$	4,444,249	\$	4,223,694	\$	4,128,699
State Sources		10,520,161		9,854,097		9,332,322		9,231,441		8,240,696
Federal Sources		334,236		69,404		27,689		-		-
Total Revenues	\$	17,369,513	\$	15,074,186	\$	13,804,260	\$	13,455,135	\$	12,369,395
Expenditures:										
Current:										
Instruction	\$	8,479,389	\$	7,777,265	\$	7,369,597	\$	7,407,742	\$	7,014,170
Instructional Resources & Media		312,567		310,690		295,803		293,762		274,253
Curriculum & Instructional Staff Development		112,512		101,936		107,407		102,712		84,123
Instructional & School Leadership		1,315,838		1,329,594		1,275,678		1,169,304		970,339
Guidance & Counseling		298,582		307,468		314,157		274,126		293,322
Social Work Services		-		-		-		-		-
Health Services		161,237		153,119		141,959		135,923		131,092
Student Transportation		627,154		366,795		302,175		192,448		190,354
Food Services		-		-		-		-		-
Co-Curricular/ Extracurricular Activities		1,141,495		887,480		780,945		725,302		675,246
General Administration		934,180		866,456		816,204		810,766		729,386
Facility Maintenance & Operations		2,500,629		1,832,713		1,714,489		2,199,321		1,614,001
Security and Monitoring Services		65,783		101,191		96,516		21,376		22,822
Data Processing Services		110,028		105,205		174,988		97,293		132,427
Debt Services		132,829		132,352		132,750		40,650		-
Facilities Acquisition and Construction		1,512,978		-		335,778		1,286,322		-
Intergovernmental:										
Contracted Instructional Services Between Schools		-		-		-		-		-
Payments to Shared Service Arrangements		274,383		316,059		287,811		264,835		222,061
Payments Related to Juvenile Justice Alternative Edu Prog		-		-		-		-		-
Other Intergovernmental Charges		136,158		120,093		114,412		112,124		113,141
Total Expenditures	\$	18,115,742	\$	14,708,416	\$	14,260,669	\$	15,134,006	\$	12,466,737
Excess (Deficiency) of revenues over (under) expenditures	\$	(746,229)	\$	365,770	\$	(456,409)	\$	(1,678,871)	\$	(97,342)
Other Resources and (Uses):										
Transfers Out	\$	(2,414)	\$	-	\$	-	\$	-	\$	-
Transfers In		-		-		-		-		-
Proceeds from Sale of Property or Capital Assets		-		1,336		-		-		80,000
Issuance of Non-Current Debt		-		-		-		1,511,000		-
Total Other Resources (Uses)	\$	(2,414)	\$	1,336	\$	-	\$	1,511,000	\$	80,000
Net change in Fund Balances	\$	(748,643)	\$	367,106	\$	(456,409)	\$	(167,871)	\$	(17,342)
Beginning Fund Balance	\$	5,780,307	\$	5,413,201	\$	5,869,610	\$	6,037,481	\$	6,054,823
Ending Fund Balance - August 31	\$	5,031,664	\$	5,780,307	\$	5,413,201	\$	5,869,610	\$	6,037,481

Table 19
CHANGE IN NET POSITION

Fiscal Years Ending August 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:					
Program Revenues					
Charges for Services	\$ 755,590	\$ 743,483	\$ 712,623	\$ 749,394	\$ 706,779
Operating Grants and Contributions	3,598,315	(836,883)	2,142,344	2,644,031	2,039,279
Total Program Revenues	\$ 4,353,905	\$ (93,400)	\$ 2,854,967	\$ 3,393,425	\$ 2,746,058
General Revenues					
M&O Taxes	\$ 6,136,942	\$ 4,761,317	\$ 4,088,725	\$ 3,874,545	\$ 3,882,733
Debt Service Taxes	1,506,552	1,900,838	1,630,228	1,546,554	1,721,041
Investment Earnings	245,213	167,688	81,850	41,340	13,984
Grants and Contributions - Not Restricted	9,823,626	9,173,839	8,725,004	8,625,003	7,777,830
Miscellaneous	4,580	9,729	8,888	-	-
Total General Revenues	\$ 17,716,913	\$ 16,013,411	\$ 14,534,695	\$ 14,087,442	\$ 13,395,588
Total Revenues	\$ 22,070,818	\$ 15,920,011	\$ 17,389,662	\$ 17,480,867	\$ 16,141,646
Expenditures:					
Instruction	\$ 10,463,376	\$ 6,337,235	\$ 8,879,552	\$ 8,942,855	\$ 8,072,276
Instructional Resources & Media	385,768	273,411	352,788	343,373	306,495
Curriculum & Staff Development	128,809	81,696	117,914	113,916	90,452
Instructional Leadership	175,768	137,641	211,335	112,493	101,934
School Leadership	1,346,655	818,230	1,196,056	1,208,979	948,717
Guidance & Counseling	325,376	205,192	327,780	292,953	294,141
Health Services	177,168	106,645	150,577	146,807	133,787
Student Transportation	448,327	189,205	341,165	327,915	308,352
Food Services	954,010	725,151	888,006	915,029	855,256
Co-Curricular/ Extracurricular Activities	1,397,664	910,339	982,766	913,424	812,322
General Administration	1,074,503	708,066	916,271	922,606	801,800
Facility Maintenance & Operations	2,135,987	1,596,539	1,814,943	1,810,929	1,662,352
Security and Monitoring Services	67,223	102,534	97,951	22,116	23,904
Data Processing Services	118,688	68,114	178,381	102,316	131,179
Debt Services	1,198,487	1,513,011	1,348,505	1,385,238	1,572,488
Facilities Acquisition and Construction	-	-	65	31,766	-
Payments to Shared Service Arrangements	280,643	320,549	292,301	271,085	226,471
Other Intergovernmental Charges	136,158	120,093	114,412	112,124	113,141
Total Expenditures	\$ 20,814,610	\$ 14,213,651	\$ 18,210,768	\$ 17,975,924	\$ 16,455,067
Increase/(Decrease) in Net Position	\$ 1,256,208	\$ 1,706,360	\$ (821,106)	\$ (495,057)	\$ (313,421)
Beginning Net Position	\$ (2,664,541)	\$ 4,020,805	\$ 4,841,911	\$ 5,336,971	\$ 7,004,466
Prior Period Adjustment	\$ -	\$ (8,391,706)	\$ -	\$ (3)	\$ (1,354,074)
Ending Net Position	\$ (1,408,333)	\$ (2,664,541)	\$ 4,020,805	\$ 4,841,911	\$ 5,336,971

Source: District's Audited Financial Statements

APPENDIX B
FORM OF LEGAL OPINION OF BOND COUNSEL



(Date of Delivery of Bonds)

Proposed Form of Opinion of Bond Counsel

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

**CADDO MILLS INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,210,000

AS BOND COUNSEL for the Caddo Mills Independent School District (the "Issuer"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including the executed Bond Numbered T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to principles of sovereign immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

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IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57 (of the Internal Revenue Code of 1986 (the "Code")). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the report of as to the sufficiency of the amounts initially deposited to the to the escrow fund to pay the redemption price of the refunded bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit



to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

Respectfully,

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APPENDIX C

EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2019

The information contained in this Appendix consists of excerpts from the Caddo Mills Independent School District Annual Financial Report for the Year Ended August 31, 2019, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

**CADDO MILLS INDEPENDENT
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

YEAR ENDED AUGUST 31, 2019

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
3500 Joe Ramsey Blvd.
Greenville, Texas 75401
(903) 455-6252

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED AUGUST 31, 2019

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibits</u>
INTRODUCTORY SECTION		
Certificate of Board	3	
FINANCIAL SECTION		
<u>Independent Auditor's Reports:</u>		
Report on Basic Financial Statements	5	
Report on Compliance and Internal Controls (<i>Government Auditing Standards</i>)	7	
Schedule of Findings and Questioned Costs	9	
Management's Discussion and Analysis (Required Supplementary Information)	12	
<u>Basic Financial Statements:</u>		
Government-wide Financial Statements:		
Statement of Net Assets	21	A-1
Statement of Activities	22	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	23	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets	24	C-2
Statement of Revenues, Expenditures and Changes in		
Fund Balances of Governmental Funds	25	C-3
Reconciliation of the Statement of Revenues, Expenditures and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities	26	C-4
Statement of Net Assets – Proprietary Funds	27	D-1
Statement of Revenues, Expenses and Changes in		
Fund Net Assets – Proprietary Funds	28	D-2
Statement of Cash Flows – Proprietary Funds	29	D-3
Statement of Fiduciary Net Assets – Fiduciary Funds	30	E-1
Notes to the Basic Financial Statements	31	F-1
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule – General Fund	57	G-1
Schedule of District's Proportionate Share of the Net Pension Liability	58	G-2
Schedule of District Pension Contributions	59	G-3
Schedule of District's Proportionate Share of the OPEB Liability	60	G-4
Schedule of District OPEB Contributions	61	G-5
Notes to Required Supplementary Information	62	G-6
<u>Other Supplementary Information Section:</u>		
Schedule of Delinquent Taxes Receivable	65	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
School Breakfast and National School Lunch Program	66	J-3
Debt Service Fund	67	J-4
Schedule of Required Responses to Selected School FIRST Indicators	68	J-5

CERTIFICATE OF BOARD

Caddo Mills Independent School District
Name of School District

Hunt
County

116-901
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's report of the above named school district was reviewed and
✓ **approved**/ **disapproved** for the year ended August 31, 2019, at a meeting of the board of
school trustees of such school district on 10/21/19.

Jeff Whitt
Signature of Board Secretary

[Signature]
Signature of Board President
Vice

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attach list if necessary):

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and certain pension disclosures 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 Districts basic financial statements as a whole. The Schedules identified in the table of contents as other supplementary information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

The other supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



October 14, 2019
Greenville, Texas

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

Members of the Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Caddo Mills Independent School District (District), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Rutherford, Taylor & Company, P.C.".

October 14, 2019
Greenville, Texas

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019

Financial Statement Findings (Section II)

NONE

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019

Prior Year Findings (Section IV)

NONE

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2019

Corrective Action Plans (Section V)

NONE

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019

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

FINANCIAL HIGHLIGHTS

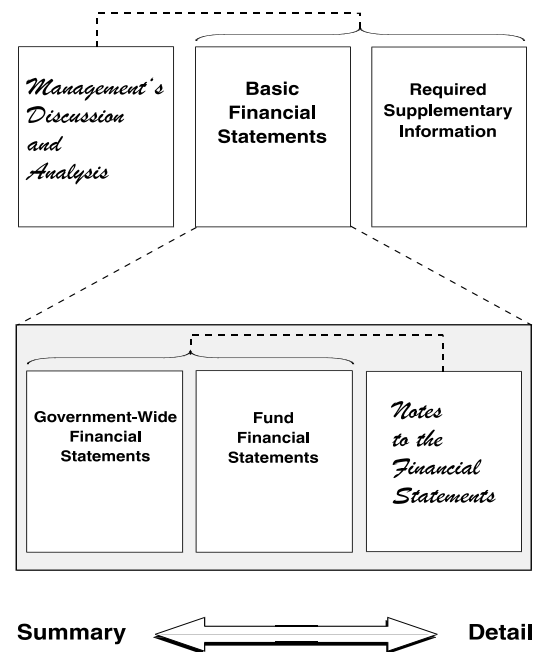
- The District's total combined net assets were \$ (1,408,333) at August 31, 2019.
- During the year, the District's expenses were \$ 1,256,208 less than the \$ 22,070,818 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased over the prior year due to implementation of GASB 75 which required reporting on-behalf supplemental contributions from the state and retiree healthcare program changes.
- The General Fund reported a fund balance this year of \$ 5,031,664, a decrease of \$ 748,643 over the previous year.
- The District did not issue any new debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts — management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

Figure A-1, Required Components of the District's Annual Financial Report

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the print shop.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.



The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019**

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base and student population.

The government-wide financial statements of the District include the governmental activities. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

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

**CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019**

- **Proprietary funds**—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.
- **Fiduciary funds**—The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$ (1,408,333) at August 31, 2019.

Caddo Mills Independent School District's Net Position			Table A-1
	Governmental Activities		Total Percentage Change
	2019	2018	2018-2019
Assets:			
Cash and Investments	\$ 7,013,010	\$ 7,504,341	-6.55%
Other Assets	1,666,594	1,157,386	44.00%
Capital Assets Less Accumulated	31,997,862	31,071,353	2.98%
Total Assets	\$ 40,677,466	\$ 39,733,080	2.38%
Total Deferred Net Outflows of Resources	\$ 5,568,422	\$ 3,114,195	78.81%
Liabilities:			
Current Liabilities	\$ 1,207,519	\$ 1,059,763	13.94%
Long-term Liabilities	44,297,939	42,061,283	5.32%
Total Liabilities	\$ 45,505,458	\$ 43,121,046	5.53%
Total Deferred Net Inflows of Resources	\$ 2,148,763	\$ 2,390,770	-10.12%
Net Position:			
Net Investment in Capital Assets	\$ 1,283,952	\$ (763,998)	268.06%
Restricted	2,098,036	1,562,525	34.27%
Unrestricted	(4,790,321)	(3,463,068)	-38.33%
Total Net Position	\$ (1,408,333)	\$ (2,664,541)	47.15%

Approximately \$ 2,044,496 of the District's restricted net assets represents funds held for debt retirement. These funds are restricted for retirement of tax supported debt. Unrestricted net assets represent resources available to fund the programs of the District in the upcoming year.

CHANGES IN NET ASSETS

The District's total revenues were \$ 22,070,818. 35% of the District's revenue comes from local property taxes (See Table A-2). 61% comes from state aid and federal grants while only 4% relates to charges for services and other miscellaneous revenues including investment earnings.

The total cost of all programs and services was \$ 20,814,610. 53% of these costs are for instruction and instructional related student services.

The District's tax collection percentage rate (current and delinquent base tax only) was 99.55%. The total tax collection percentage rate (base tax and penalty and interest) was 100.71%.

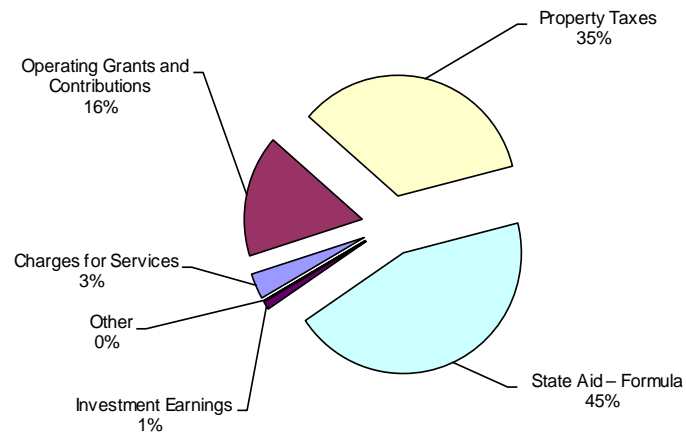
CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019

GOVERNMENTAL ACTIVITIES

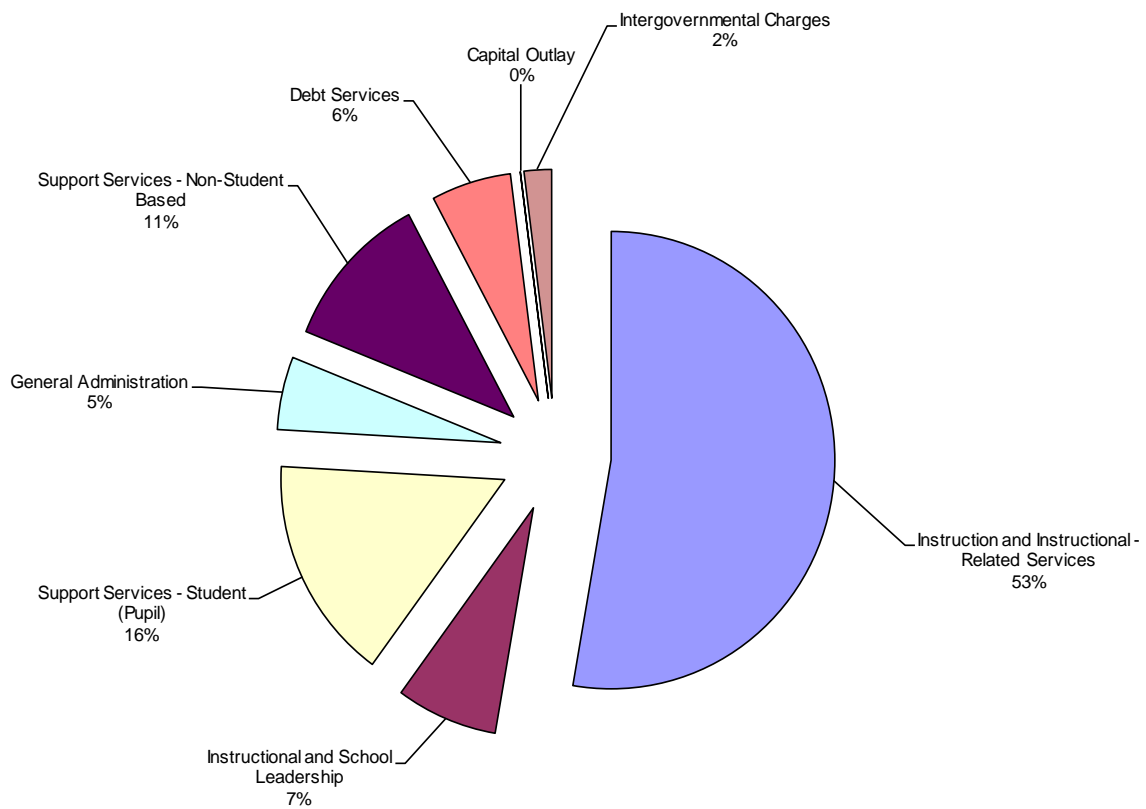
Changes in Caddo Mills Independent School District's Net Position			Table A-2
			Total Percentage Change 2018-2019
	Governmental Activities 2019	2018	
Program Revenues:			
Charges for Services	\$ 755,590	\$ 743,483	1.63%
Operating Grants and Contributions	3,598,315	(836,883)	529.97%
General Revenues:			
Property Taxes	7,643,494	6,662,155	14.73%
State Aid – Formula	9,823,626	9,173,839	7.08%
Investment Earnings	245,213	167,688	46.23%
Other	4,580	9,729	-52.92%
Total Revenues	<u>\$ 22,070,818</u>	<u>\$ 15,920,011</u>	38.64%
Expenses:			
Instruction	\$ 10,463,376	\$ 6,337,235	65.11%
Instructional Resources and Media Services	385,768	273,411	41.09%
Curriculum and Staff Development	128,809	81,696	57.67%
Instructional Leadership	175,768	137,641	27.70%
School Leadership	1,346,655	818,230	64.58%
Guidance, Counseling and Evaluation Services	325,376	205,192	58.57%
Health Services	177,168	106,645	66.13%
Student (Pupil) Transportation	448,327	189,205	136.95%
Food Services	954,010	725,151	31.56%
Cocurricular/Extracurricular Activities	1,397,664	910,339	53.53%
General Administration	1,074,503	708,066	51.75%
Plant Maintenance and Operations	2,135,987	1,596,539	33.79%
Security and Monitoring Services	67,223	102,534	-34.44%
Data Processing Services	118,688	68,114	74.25%
Debt Service	1,198,487	1,513,011	-20.79%
Payments for Shared Service Arrangements	280,643	320,549	-12.45%
Other Intergovernmental Charges	136,158	120,093	13.38%
Total Expenses	<u>\$ 20,814,610</u>	<u>\$ 14,213,651</u>	46.44%
Excess (Deficiency) Before Other Resources, Uses and Transfers	<u>\$ 1,256,208</u>	<u>\$ 1,706,360</u>	-26.38%
Increase (Decrease) in Net Position	<u>\$ 1,256,208</u>	<u>\$ 1,706,360</u>	-26.38%
Net Position - Beginning (September 1)	\$ (2,664,541)	\$ 4,020,805	-166.27%
Prior Period Adjustment	-	(8,391,706)	100.00%
Net Position - Beginning, as Restated	<u>\$ (2,664,541)</u>	<u>\$ (4,370,901)</u>	39.04%
Net Position - Ending (August 31)	<u>\$ (1,408,333)</u>	<u>\$ (2,664,541)</u>	47.15%

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019

Sources of Revenue for Fiscal Year 2019 - See Table A-2



Functional Expenses for Fiscal Year 2019 - See Table A-2



**CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019**

- Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.
- The cost of all governmental activities this year was \$ 20,814,610
- However, the amount that our taxpayers paid for these activities through property taxes was only \$ 7,643,494.
- Some of the cost was paid by those who directly benefited from the programs \$ 755,590, or
- By grants and contributions \$ 3,598,315.

Caddo Mills Independent School District Net Cost of Selected District Functions						Table A-3
	Total Cost of Services		%	Net Cost of Services		%
	2019	2018	Change			Change
Instruction	\$ 10,463,376	\$ 6,337,235	65.11%	\$ 8,562,056	\$ 6,895,871	24.16%
School Leadership	1,346,655	818,230	64.58%	163,169	1,014,726	-83.92%
General Administration	1,074,503	708,066	51.75%	1,014,928	817,016	24.22%
Plant Maintenance and Operations	2,135,987	1,596,539	33.79%	2,043,044	1,742,175	17.27%
Debt Service	1,198,487	1,513,011	-20.79%	168,549	985,055	-82.89%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues in the governmental funds totaled \$ 21,508,029. This represents an increase of \$ 2,662,994 from the prior year revenues of \$ 18,845,035. The change represents an increase in student enrollment and attendance.

Expenditures in the governmental funds totaled \$ 21,704,384. This represents an increase of \$ 3,119,010 from the prior year expenditures of \$ 18,585,374. The change represents the additional operating costs for increased student enrollment and costs related to facility improvements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its General Fund budget several times. With these adjustments, actual General Fund expenditures were \$ 383,818 below final budget amounts. The most significant variances were the result of reduced anticipated costs in capital outlay.

Resources available in the General Fund were \$ 481,586 above the final budgeted amount. The favorable variance was due to increased state funding levels received on better than anticipated student enrollment and attendance numbers.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of 2019, the District had invested \$ 52,504,712 in a broad range of capital assets, including land, equipment, buildings and vehicles (See Table A-4).

Caddo Mills Independent School District's Capital Assets			Table A-4
	Governmental Activities		Total Percentage Change 2018-2019
	2019	2018	
Land	\$ 1,872,970	\$ 1,872,970	0.00%
Construction in Progress	1,512,978	-	100.00%
Buildings and Improvements	46,234,459	45,727,507	1.11%
Vehicles	2,121,187	1,785,238	18.82%
Equipment	763,118	763,118	0.00%
Totals at Historical Cost	\$ 52,504,712	\$ 50,148,833	4.70%
Less Accumulated Depreciation	(20,506,850)	(19,077,480)	7.49%
Net Capital Assets	<u>\$ 31,997,862</u>	<u>\$ 31,071,353</u>	2.98%

DEBT

At year-end, the District had \$ 33,647,658 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Bond Ratings -
The District's bonds
presently carry "AAA"
ratings.

Caddo Mills Independent School District's Debt			Table A-5
	Governmental Activities		Total Percentage Change 2018-2019
	2019	2018	
Bonds Payable	\$ 27,264,860	\$ 28,164,860	-3.20%
Other Debt Payable	6,382,798	6,567,588	-2.81%
Total Debt Payable	<u>\$ 33,647,658</u>	<u>\$ 34,732,448</u>	-3.12%

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2019

ECONOMIC FACTORS

The District's property valuation has rebounded from significant drops due to housing development bankruptcies and foreclosures. The assessed valuation has increased for the year and values continue to look positive. Local property tax rates are restricted by state statute, without local elections, to \$ 1.04 for maintenance and operations. This change in funding and other legislative changes could impact the District's financial operations, including cash flows.

Student population has remained at a steady historical growth rate in the District. The economic outlook for the area is for growth to be relatively slow, as indicated by steady property value increases from the prior year. Housing has not expanded at the rate of other north central Texas communities. These economic conditions allow the District to maintain constant funding and staffing levels.

The State has increased funding levels for the 2019-2021 biennium, which will affect the revenue levels of the District. The level of funding per attendance credits increased significantly. With these increases, the state imposed requirements to spend at least 30% of the new funding on salaries to personnel with at least 75% of the 30% to be for teachers and other designated classes of employees. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Luke Allison, Superintendent of the District.

BASIC FINANCIAL STATEMENTS

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2019

1

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and Investments	\$ 7,013,010
1225	Property Taxes Receivable, Net	381,139
1240	Due from Other Governments	1,255,212
1290	Other Receivables, Net	17,405
1300	Inventories	12,838
	Capital Assets:	
1510	Land	1,872,970
1520	Building and Improvements, Net	27,938,199
1530	Furniture and Equipment, Net	673,715
1580	Construction in progress	1,512,978
1000	Total Assets	\$ 40,677,466
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Outflows - Refunding	\$ 1,848,590
1705	Deferred Outflows - Pensions	2,671,834
1706	Deferred Outflows - OPEB	1,047,998
1700	Total Deferred Outflows of Resources	\$ 5,568,422
	LIABILITIES	
2110	Accounts Payable	\$ 157,035
2140	Interest Payable	45,550
2165	Accrued Liabilities	847,370
2300	Unearned Revenues	157,564
	Noncurrent Liabilities:	
2501	Due within one year	1,095,000
2502	Due in more than one year	32,552,658
2540	Net Pension Liability	4,663,337
2545	Net OPEB Liability	5,986,944
2000	Total Liabilities	\$ 45,505,458
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflows - Pensions	\$ 255,547
2606	Deferred Inflows - OPEB	1,893,216
2600	Total Deferred Inflows of Resources	\$ 2,148,763
	NET POSITION	
3200	Net Investment in Capital Assets	\$ 1,283,952
	Restricted For:	
3820	Federal and State Programs	46,355
3850	Debt Service	2,044,496
3890	Other Purposes	7,185
3900	Unrestricted	(4,790,321)
3000	Total Net Position	\$ (1,408,333)

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2019

		1	3	4	Net (Expense) Revenue and Changes in Net Position
		Program Revenues			
			Operating		
		Charges for	Grants and	Governmental	
Codes	Functions/Programs	Expenses	Services	Contributions	Activities
Governmental Activities:					
11	Instruction	\$ 10,463,376	\$ 281,157	\$ 1,620,163	\$ (8,562,056)
12	Instructional Resources and Media Services	385,768	-	25,520	(360,248)
13	Curriculum and Staff Development	128,809	-	8,944	(119,865)
21	Instructional Leadership	175,768	-	12,599	(163,169)
23	School Leadership	1,346,655	15,071	104,444	(1,227,140)
31	Guidance, Counseling and Evaluation Services	325,376	-	25,766	(299,610)
33	Health Services	177,168	-	13,800	(163,368)
34	Student (Pupil) Transportation	448,327	-	49,138	(399,189)
35	Food Services	954,010	360,989	465,057	(127,964)
36	Cocurricular/Extracurricular Activities	1,397,664	95,499	84,997	(1,217,168)
41	General Administration	1,074,503	-	59,575	(1,014,928)
51	Plant Maintenance and Operations	2,135,987	2,874	90,069	(2,043,044)
52	Security and Monitoring Services	67,223	-	-	(67,223)
53	Data Processing Services	118,688	-	8,305	(110,383)
72	Interest on Long-term Debt	1,193,733	-	1,029,938	(163,795)
73	Debt Issuance Costs and Fees	4,754	-	-	(4,754)
93	Payments for Shared Service Arrangements	280,643	-	-	(280,643)
99	Other Intergovernmental Charges	136,158	-	-	(136,158)
TG	Total Governmental Activities	\$ 20,814,610	\$ 755,590	\$ 3,598,315	\$ (16,460,705)
TP	Total Primary Government	\$ 20,814,610	\$ 755,590	\$ 3,598,315	\$ (16,460,705)
General Revenues:					
MT	Property Taxes, Levied for General Purposes				\$ 6,136,942
DT	Property Taxes, Levied for Debt Service				1,506,552
IE	Investment Earnings				245,213
GC	Grant and Contributions Not Restricted to Specific Programs				9,823,626
MI	Miscellaneous				4,580
TR	Total General Revenues				\$ 17,716,913
CN	Change in Net Position				\$ 1,256,208
NB	Net Position - Beginning (September 1)				(2,664,541)
NE	Net Position - Ending (August 31)				\$ (1,408,333)

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS				
1110 Cash and Investments	\$ 4,811,536	\$ 1,956,990	\$ 179,115	\$ 6,947,641
1225 Property Taxes Receivable, Net	280,210	100,929	-	381,139
1240 Due from Other Governments	1,158,949	30,741	65,522	1,255,212
1290 Other Receivables	12,349	-	5,056	17,405
1300 Inventories	12,838	-	-	12,838
1000 Total Assets	<u>\$ 6,275,882</u>	<u>\$ 2,088,660</u>	<u>\$ 249,693</u>	<u>\$ 8,614,235</u>
LIABILITIES				
Current Liabilities:				
2110 Accounts Payable	\$ 102,774	\$ -	\$ 16,838	\$ 119,612
2150 Payroll Deductions & Withholdings	82	-	-	82
2160 Accrued Wages Payable	778,086	-	49,594	827,680
2200 Accrued Expenditures	16,556	-	3,052	19,608
2300 Unearned Revenues	66,510	-	91,054	157,564
2000 Total Liabilities	<u>\$ 964,008</u>	<u>\$ -</u>	<u>\$ 160,538</u>	<u>\$ 1,124,546</u>
DEFERRED INFLOWS OF RESOURCES				
2610 Deferred Property Tax Revenue	\$ 280,210	\$ 100,929	\$ -	\$ 381,139
2600 Total Deferred Inflows of Resources	<u>\$ 280,210</u>	<u>\$ 100,929</u>	<u>\$ -</u>	<u>\$ 381,139</u>
FUND BALANCES				
Nonspendable Fund Balances:				
3410 Inventories	\$ 12,838	\$ -	\$ -	\$ 12,838
Restricted Fund Balances:				
3450 Federal/State Funds Grants	-	-	46,355	46,355
3480 Retirement of Long-Term Debt	-	1,746,079	-	1,746,079
3490 Other Restrictions of Fund Balance	-	-	31,396	31,396
Committed Fund Balances:				
3510 Construction	2,324,498	-	-	2,324,498
3545 Other Committed Fund Balance	-	241,652	11,404	253,056
Assigned Fund Balances				
3590 Other Assigned Fund Balance	161,804	-	-	161,804
3600 Unassigned	2,532,524	-	-	2,532,524
				-
3000 Total Fund Balance	<u>\$ 5,031,664</u>	<u>\$ 1,987,731</u>	<u>\$ 89,155</u>	<u>\$ 7,108,550</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,275,882</u>	<u>\$ 2,088,660</u>	<u>\$ 249,693</u>	<u>\$ 8,614,235</u>

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET (GOVERNMENTAL FUNDS)
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2019

Total fund balances - Governmental Funds Balance Sheet	\$ 7,108,550
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	31,997,862
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	381,139
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	27,946
Payables for bond principal which are not due in the current period are not reported in the funds.	(27,264,860)
Payables for bond interest which are not due in the current period are not reported in the funds.	(45,550)
Payables for notes which are not due in the current period are not reported in the funds.	(1,251,000)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	1,848,590
Bond premiums are amortized in the SNA but not in the funds.	(2,198,050)
Recognition of the District's proportionate share of the OPEB liability is not reported in the funds.	(5,986,944)
Deferred Resource Inflows related to the OPEB plans are not reported in the funds.	(1,893,216)
Deferred Resource Outflows related to the OPEB plans are not reported in the funds.	1,047,998
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds	(2,933,748)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(4,663,337)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(255,547)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>2,671,834</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (1,408,333)</u>

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES				
5700 Local and Intermediate Sources	\$ 6,515,116	\$ 1,565,007	\$ 583,014	\$ 8,663,137
5800 State Program Revenues	10,520,161	1,029,938	269,698	11,819,797
5900 Federal Program Revenues	334,236	-	690,859	1,025,095
5020 Total Revenues	\$ 17,369,513	\$ 2,594,945	\$ 1,543,571	\$ 21,508,029
EXPENDITURES				
Current:				
0011 Instruction	\$ 8,479,389	\$ -	\$ 625,508	\$ 9,104,897
0012 Instructional Resources and Media Services	312,567	-	-	312,567
0013 Curriculum and Staff Development	112,512	-	9,211	121,723
0021 Instructional Leadership	163,274	-	-	163,274
0023 School Leadership	1,152,564	-	44,042	1,196,606
0031 Guidance, Counseling and Evaluation Services	298,582	-	-	298,582
0033 Health Services	161,237	-	332	161,569
0034 Student (Pupil) Transportation	627,154	-	-	627,154
0035 Food Services	-	-	814,423	814,423
0036 Cocurricular/Extracurricular Activities	1,141,495	-	8,145	1,149,640
0041 General Administration	934,180	-	8,321	942,501
0051 Plant Maintenance and Operations	2,500,629	-	13,469	2,514,098
0052 Security and Monitoring Services	65,783	-	1,440	67,223
0053 Data Processing Services	110,028	-	-	110,028
0071 Principal on Long-term Debt	97,000	900,000	-	997,000
0072 Interest on Long-term Debt	35,829	1,152,737	-	1,188,566
0073 Debt Issuance Cost and Fees	-	4,754	-	4,754
0081 Capital Outlay	1,512,978	-	-	1,512,978
0093 Payments for Shared Service Arrangements	274,383	-	6,260	280,643
0099 Other Intergovernmental Charges	136,158	-	-	136,158
6030 Total Expenditures	\$ 18,115,742	\$ 2,057,491	\$ 1,531,151	\$ 21,704,384
1100 Excess (Deficiency) of Revenues Over Expenditures	\$ (746,229)	\$ 537,454	\$ 12,420	\$ (196,355)
OTHER FINANCING SOURCES (USES)				
7915 Transfer In	\$ -	\$ -	\$ 2,414	\$ 2,414
8911 Transfer Out	(2,414)	-	-	(2,414)
7080 Net Other Financing Sources (Uses)	\$ (2,414)	\$ -	\$ 2,414	\$ -
1200 Net Change in Fund Balances	\$ (748,643)	\$ 537,454	\$ 14,834	\$ (196,355)
0100 Fund Balances - Beginning (September 1)	5,780,307	1,450,277	74,321	7,304,905
3000 Fund Balances - Ending (August 31)	\$ 5,031,664	\$ 1,987,731	\$ 89,155	\$ 7,108,550

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED AUGUST 31, 2019

Net change in fund balances - total governmental funds	\$ (196,355)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,355,879
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,429,370)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	72,076
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	31,919
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	900,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	97,000
The accretion of interest on capital appreciation bonds is not reported in the Funds.	(36,651)
(Increase) decrease in accrued interest expense from beginning of year to end of year.	(435)
The net revenue (expense) of internal service funds is reported with governmental activities.	(5,165)
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	(134,449)
OPEB contributions in the current year are de-expended and recorded as deferred resource outflows.	88,801
OPEB contributions deferred in the prior year were expended in the current year.	(82,717)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(434,848)
Pension contributions in the current year are de-expended and recorded as deferred resource outflows.	315,932
Pension contributions deferred in the prior year are expended in the current period.	(285,409)
Change in net position of governmental activities - Statement of Activities	<u>\$ 1,256,208</u>

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
AUGUST 31, 2019

Data Control Codes	Internal Service Fund
	<hr/>
ASSETS	
Current Assets:	
1110 Cash and Investments	\$ 65,369
	<hr/>
Total Current Assets	\$ 65,369
	<hr/>
1000 Total Assets	\$ 65,369
	<hr/>
LIABILITIES	
Current Liabilities:	
2110 Accounts Payable	\$ 37,423
	<hr/>
Total Current Liabilities	\$ 37,423
	<hr/>
2000 Total Liabilities	\$ 37,423
	<hr/>
NET POSITION	
3900 Unrestricted Net Position	\$ 27,946
	<hr/>
3000 Total Net Position	\$ 27,946
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2019

<u>Data Control Codes</u>		<u>Internal Service Fund</u>
	OPERATING REVENUES	
5700	Local and Intermediate Sources	\$ 62,761
5020	Total Operating Revenues	\$ 62,761
	OPERATING EXPENSES	
6400	Other Operating Costs	\$ 67,926
6030	Total Operating Expenses	\$ 67,926
1300	Change in Net Position	\$ (5,165)
0100	Total Net Position - Beginning (September 1)	33,111
3000	Total Net Position - Ending (August 31)	\$ 27,946

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2019

	Internal Service Fund
	<hr/>
Cash Flows from Operating Activities:	
Cash Receipts from Operating Interest	\$ 1,458
Cash Receipts from Quasi-External Operating Transfers	61,302
Cash Payments for Claims	(60,421)
Cash Payments for Reinsurance and Administration	<hr/> (14,474)
Net Cash Provided by (Used for) Operating Activities	<hr/> \$ (12,135)
Cash Flows from Capital and Other Related Financing Activities:	
NONE	
Cash Flows for Noncapital Financing Activities:	
NONE	
Cash Flows from Investing Activities:	
NONE	
Net Increase (Decrease) in Cash and Investments	\$ (12,135)
Cash and Investments - Beginning (September 1)	<hr/> 77,504
Cash and Investments - Ending (August 31)	<hr/>\$ 65,369
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (5,165)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Increase (Decrease) in Claims Payable	<hr/> (6,970)
Net Cash Provided by (Used for) Operating Activities	<hr/>\$ (12,135)

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
August 31, 2019

Data Control Codes		Agency Fund
ASSETS		
	Current Assets:	
1110	Cash and Investments	\$ 98,972
1000	Total Assets	\$ 98,972
LIABILITIES		
	Current Liabilities:	
2190	Due to Student Groups	\$ 98,972
2000	Total Liabilities	\$ 98,972
NET POSITION		
3000	Total Net Position	\$ -

The accompanying notes are an integral part of this statement.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies

The basic financial statements of the Caddo Mills Independent School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the Texas Education Agency's *Financial Accountability System Resource Guide (Guide)*. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and as a body corporate has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

2. Basis of Presentation – Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets (SNA) and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies (Continued)

Debt Service Fund – This is used to account for tax revenues and for the payment of principal, interest and related costs on long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund.

In addition, the District reports the following fund types:

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. The Board can commit specific types of resources to specific purposes which are included as special revenue funds.

Internal Service Funds – These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds – These funds are reported in the fiduciary fund financial statements. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equity liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

b. Measurement Focus – Basis of Accounting

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

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital lease are reported as other financing sources.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies (Continued)

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB Standards.

3. Budgetary Data

The official budget was prepared for adoption for the general, food service and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1.
- b. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.
- c. Prior to the expenditure of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the function level by personnel responsible for organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

5. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

General Fund	\$	-0-
Special Revenue Fund		-0-
Debt Service Fund		-0-
		<hr/>
Total	\$	<u>-0-</u>

6. Financial Statement Amounts

Cash and Investments

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as a part of the District's cash and temporary investments.

For the purpose of the statement of cash flows, highly liquid investments are considered to be investments if they have a maturity of three months or less when purchased.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies (Continued)

Inventories

Inventory in governmental funds consists of expendable supplies held for consumption. The cost, determined by physical count and valued using the weighted average method, is recorded as an expenditure at the time of use. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they do not represent available spendable resources.

Fund Equity

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	General	Debt Service	Other Governmental	Total
Nonspendable				
Inventory	\$ 12,838	\$ -	\$ -	\$ 12,838
Restricted				
Child Nutrition Program	-		46,355	46,355
Retirement of Long Term Debt	-	1,746,079		1,746,079
Scholarship Fund	-	-	7,186	7,186
Athletic Activity	-	-	24,210	24,210
Committed				
Construction	2,324,498	-	-	2,324,498
Campus Activity Funds	-	-	11,404	11,404
Future Budget Deficits	161,804	241,652	-	403,456
Unassigned	2,532,524	-	-	2,532,524
Totals	<u>\$ 5,031,664</u>	<u>\$ 1,987,731</u>	<u>\$ 89,155</u>	<u>\$ 7,108,550</u>

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$ 5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15-50
Vehicles	5-10
Other Equipment	3-15

Accretion

Accretion is an adjustment of the difference between the price of a bond issued at an original discount and the par value of the bond. For governmental activities debt, the accreted value is recognized as it accrues by fiscal year.

7. Deferred Outflows and Inflows of Resources

The District implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits and Other Pensions*. In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources.

The District also implemented GASB Statement Number 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date*, which amends the transition provisions of GASB 68. GASB 71 requires that, at transition, governments recognize a beginning deferred outflow of resource for pension contributions made subsequent to the measurement date of the beginning Net Pension Liability. Implementation is reflected in the financial statements and the prior period adjustment.

8. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year end.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

A. Summary of Significant Accounting Policies (Continued)

9. Interfund Activities

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

10. Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave accrues at various rates established by the State and adopted by the Board of Trustees. Sick leave does not vest but accumulates and is recorded as an expenditure as it is paid.

11. 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, 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.

12. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expenses, 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 term. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

13. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may vary from those estimates.

14. Data Control Codes

Data control codes refer to the account code structure prescribed by the Agency in the *Guide*. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

15. Accounting System

In accordance with Texas Education Code, Chapter 44, Subchapter A, the District adopted and implemented an accounting system which at least meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The District's accounting system uses codes and the code structure presented in the accounting code section of the *Guide*. Mandatory codes are utilized in the form provided in that section.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

B. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, it appears all District cash deposits were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the name of the District. The District's deposits appear to have been properly secured throughout the fiscal year.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to have been in substantial compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or secured certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include investments in TexSTAR and Lone Star Investment Pool. All Lone Star Investment Pool and TexSTAR investments are reported at fair value and are presented as cash and investments.

The *Lone Star Investment Pool* is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows: American Beacon Advisors and BNY Mellon Cash Investment Strategies – Investment Managers, RBC Wealth Management – Investment Consultant, Bank of New York Mellon – Custodian, First Public – Administration. In combination with these third party organizations, the pool has received a AAAM rating from Standard and Poor's. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (Board). JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

The Board may establish separate Funds within TexSTAR from time to time. Participants choose the Funds in which their deposits are invested. Participants' assets in the Funds are represented by units of beneficial interest (units). The Board may issue an unlimited number of units in each Fund.

TexSTAR is rated AAAM by Standard & Poor's rating agency. This rating and the fund's operational settings allow the fund to comply with the requirement of the Public Funds Investment Act.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

B. Deposits, Securities and Investments (Continued)

The following table identifies the District's investment at year end:

	<u>Credit Rating</u>	<u>Fair Value</u>
Lone Star Investment Pool	AAAm	\$ 4,769,843
TexSTAR	AAAm	<u>748,809</u>
Total		<u>\$ 5,518,652</u>

In addition, the following is disclosed regarding coverage of combined cash balances on the date of highest balance:

- Name of bank: Alliance Bank, Caddo Mills, Texas.
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 2,800,140.
- Largest cash, savings and time deposit combined account balances amounted to \$ 2,116,416 and occurred during the month of August 2019.
- Total amount of FDIC coverage at the time of the highest combined balance was \$ 250,828.

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- Credit Risk**
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.
- Custodial Credit Risk**
Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Districts' name. At year end, the District was not exposed to custodial credit risk.
- Concentration of Credit Risk**
This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.
- Interest Rate Risk**
This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.
- Foreign Currency Risk**
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

C. Property Taxes

Property taxes are levied by October 1, 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 October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the District to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting these criteria may not be canceled if litigation concerning these taxes is pending.

The District levied taxes on property within the District at \$ 1.17000 to fund general operations and \$ 0.28500 for the payment of principal and interest on long term debt. The rates were levied on property assessed totaling \$ 516,709,663.

D. Capital Assets

Capital asset activities during the year ended were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental Activities</u>				
Capital Assets not Being Depreciated:				
Land	\$ 1,872,970	\$ -	\$ -	\$ 1,872,970
Construction in Progress	-	1,512,978	-	1,512,978
Total Capital Assets not being Depreciated	\$ 1,872,970	\$ 1,512,978	\$ -	\$ 3,385,948
Capital Assets being Depreciated:				
Building and Improvements	\$ 45,727,507	\$ 506,952	\$ -	\$ 46,234,459
Equipment	763,118	-	-	763,118
Vehicles	1,785,238	335,949	-	2,121,187
Total Capital Assets being Depreciated	\$ 48,275,863	\$ 842,901	\$ -	\$ 49,118,764
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 16,955,214	\$ 1,341,046	\$ -	\$ 18,296,260
Equipment	651,432	18,048	-	669,480
Vehicles	1,470,834	70,276	-	1,541,110
Total Accumulated Depreciation	\$ 19,077,480	\$ 1,429,370	\$ -	\$ 20,506,850
Total Capital Assets being Depreciated, Net	\$ 29,198,383	\$ (586,469)	\$ -	\$ 28,611,914
Governmental Activities Capital Assets, Net	\$ 31,071,353	\$ 926,509	\$ -	\$ 31,997,862

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

D. Capital Assets (Continued)

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 727,808
Instructional Resources and Media Services	54,717
School Leadership	65,635
Guidance, Counseling and Evaluation Services	4,626
Health Services	4,626
Student (Pupil) Transportation	125,518
Food Services	102,210
Cocurricular/Extracurricular Activities	195,985
General Administration	79,511
Plant Maintenance and Operations	68,734
Total	<u>\$ 1,429,370</u>

E. Long Term Obligations

Long-Term Obligation Activity

Long-term obligation activities during the year were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 28,164,860	\$ -	\$ 900,000	\$ 27,264,860	\$ 995,000
Loan Payable	1,348,000	-	97,000	1,251,000	100,000
Accreted Interest Payable	2,897,097	106,651	70,000	2,933,748	-
Unamortized Premium (Discount)	2,322,491	-	124,441	2,198,050	-
Total Governmental Activities	<u>\$ 34,732,448</u>	<u>\$ 106,651</u>	<u>\$ 1,191,441</u>	<u>\$ 33,647,658</u>	<u>\$ 1,095,000</u>

Bonds

The District has issued various series of general obligation bonds to fund facility construction and improvements. Bonds mature at various times with varying rates of interest. The bonds issued require the District to levy an ad valorem tax annually to retire the current maturities.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

E. Long Term Obligations (Continued)

The following bonded debt issues are outstanding at year end:

Description	Interest Rate	Original Balance	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2003	5.25%	\$ 6,430,135	\$ 11,397
Unlimited Tax School Building and Refunding Bonds, Series 2005	5.25%	7,630,000	70,000
Unlimited Tax Refunding Bonds, Series 2010	3.69%	3,260,000	2,350,000
Unlimited Tax Refunding Bonds, Series 2015-A	2.41%	6,425,000	5,010,000
Unlimited Tax Refunding Bonds, Series 2015-B	3.80%	8,500,000	8,120,000
Unlimited Tax Refunding Bonds, Series 2016	2.715%	7,280,000	6,675,000
Unlimited Tax Refunding Bonds, Series 2017	3.390%	5,028,463	5,028,463
Total			<u>\$ 27,264,860</u>

Maturity requirements on bonded debt at year end are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2020	\$ 995,000	\$ 1,059,938	\$ 2,054,938
2021	1,025,000	1,028,588	2,053,588
2022	1,065,000	993,638	2,058,638
2023	1,095,000	957,338	2,052,338
2024	1,135,000	919,988	2,054,988
2025-2029	5,374,708	4,768,604	10,143,312
2030-2034	4,601,231	5,030,456	9,631,687
2035-2039	6,033,921	3,468,355	9,502,276
2040-2034	5,940,000	506,950	6,446,950
Totals	<u>\$ 27,264,860</u>	<u>\$ 18,733,855</u>	<u>\$ 45,998,715</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District appears to be in compliance with all significant limitations and restrictions as of year end.

Loans

The District issued various agreements identified here as loans. These loans include financing arrangements including maintenance tax notes.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

E. Long Term Obligations (Continued)

The following schedule lists the outstanding loans at year end:

Description	Interest Rate	Original Amount	Outstanding Balance
Maintenance Tax Notes, Series 2016	2.660%	\$ 511,000	\$ 423,000
Time Warrants, Series 2016	2.660%	1,000,000	828,000
Totals			<u>\$ 1,251,000</u>

Maturity requirements on the loans at year end are as follows:

Year Ending August 31	Principal	Interest	Total Requirements
2020	\$ 100,000	\$ 33,277	\$ 133,277
2021	103,000	30,617	133,617
2022	105,000	27,877	132,877
2023	107,000	25,084	132,084
2024	110,000	22,238	132,238
2025-2029	596,000	65,702	661,702
2030-2033	130,000	3,458	133,458
Totals	<u>\$ 1,251,000</u>	<u>\$ 208,253</u>	<u>\$ 1,459,253</u>

F. Pension Plan

1. *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.

2. *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 (1) above.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

F. Pension Plan (Continued)

3. *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.

Employees' 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 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

		<u>Contribution Rates</u>	
		<u>2018</u>	<u>2019</u>
Member		7.7%	7.7%
Non-Employer Contributing Entity (State)		6.8%	6.8%
Employers		6.8%	6.8%
2019	Employer Contributions	\$	315,932
2019	Member Contributions	\$	869,606
2018	NECE On-Behalf Contributions	\$	545,520

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 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.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

F. Pension Plan (Continued)

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

When employing a retiree of the 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.

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

At August 31, 2019, the District reported a liability of \$ 4,663,337 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 4,663,337
State's proportionate share that is associated with the District	<u>8,918,885</u>
Total	<u>\$ 13,582,222</u>

The net pension liability was measured as of 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 contribution 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, 2018, the employer's proportion of the collective net pension liability was 0.0084722598%, which was an increase of 0.0005179761% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation

The following changes have occurred to the actuarial assumptions or other inputs that affects measurement of the total pension liability since the prior measurement date:

- Use of the roll forward method for the 2018 valuation
- Use of the 2017 experience study which includes demographic assumptions such as post-retirement mortality, termination rates, and rates of retirement
- Use of economic assumption such as salary increases
- Change in discount rate from 8.0% to 6.907%
- Change in assumed rate of return from 8.0% to 7.25%

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

For the current year the District recognized pension expense of \$ 1,602,989 and revenue of \$ 882,732 for support provided by the State.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

F. Pension Plan (Continued)

At year end 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 actuarial experiences	\$ 29,067	\$ 114,420
Changes of actuarial assumptions	1,681,358	52,542
Differences between projected and actual investment earnings	-	88,484
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>645,477</u>	<u>101</u>
Total as of August 31, 2018 measurement date	\$ 2,355,902	\$ 255,547
Contributions paid to TRS subsequent to the measurement date	<u>315,932</u>	<u>-</u>
Total at fiscal year end	<u><u>\$ 2,671,834</u></u>	<u><u>\$ 255,547</u></u>

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

Fiscal Year Ending August 31	Amount
2020	\$ 557,382
2021	371,176
2022	317,656
2023	340,103
2024	311,935
Thereafter	202,103

5. *Actuarial Assumptions*

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

Valuation Date	August 31, 2017 rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.91%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ended August 31, 2014 and adopted on September 24, 2015.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

F. Pension Plan (Continued)

6. *Discount Rate*

The discount rate used to measure the total pension liability was 6.907%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns *
Global Equity			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Stable Value Hedge Funds	4%	3.09%	0.12%
Cash	1%	-0.30%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5.00%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectation			2.30%
Alpha			-0.79%
Total	<u>100%</u>		<u>7.25%</u>

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

F. Pension Plan (Continued)

7. *Discount Rate Sensitivity Analysis*

The following presents the District's share of the net pension liability of the plan using the discount rate of 6.907%, as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower (5.907%) or 1 – percentage point higher (7.907%) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
District's proportionate share of the net pension liability	\$ 7,038,094	\$ 4,663,337	\$ 2,740,831

8. *Pension Plan Fiduciary Net Position*

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2018 and 2017.

Net Pension Liability	August 31, 2018	August 31, 2017
Total Pension Liability	\$ 209,611,328,793	\$ 179,336,834,819
Less: Plan Fiduciary Net Position	(154,568,901,833)	(147,361,922,120)
Net Pension Liability	<u>\$ 55,042,426,960</u>	<u>\$ 31,974,912,699</u>
Net Position as percentage of Total Pension Liability	73.74%	82.17%

G. Defined Other Post-Employment Benefit Plans

1. *Plan Description*

The employer 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.

2. *OPEB Plan Fiduciary Net Position*

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

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

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

3. *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 dependents 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 the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates			
Effective Sept. 1, 2018 - Dec. 31, 2019			
	<u>TRS-Care 1</u>	<u>TRS-Care 2</u>	<u>TRS-Care 3</u>
	<u>Basic Plan</u>	<u>Optional Plan</u>	<u>Optional Plan</u>
Retiree *	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree * and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

* or surviving spouse

4. *Contributions*

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

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

Contribution Rates		
	2018	2019
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding remitted by Employers	1.25%	1.25%
2019 Employer Contributions	\$	88,801
2019 Member Contributions	\$	73,409
2018 NECE On-Behalf Contributions	\$	126,695

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 \$ 15.6 million in fiscal year 2017 and \$ 394.6 million in fiscal year 2018.

5. *Actuarial Assumptions*

The total OPEB liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.69%
Aging Factors	Based on pan specific experience
	Third-party administrative expenses related to the delivery of health care benefits are included in the age- adjusted claims costs.
Expenses	
Payroll Growth Rate	2.50%
Projected Salary Increases	3.05% to 9.05%
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

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

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

6. *Discount Rate*

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

7. *Discount Rate Sensitivity Analysis*

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
District's proportionate share of the net OPEB liability	\$ 7,126,520	\$ 5,986,944	\$ 5,085,466

8. *Healthcare Cost Trend Rates Sensitivity Analysis*

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 4,972,254	\$ 5,986,944	\$ 7,323,312

9. *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 \$ 5,986,944 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	\$ 5,986,944
State's proportionate share that is associated with the District	<u>9,183,006</u>
Total	<u>\$ 15,169,950</u>

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

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

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

At August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.0119904548%, which was an increase of 0.0009858622% from its proportion measured as of August 31, 2017.

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

- a. Use of a roll-forward method for the actuarial assumption
- b. Known retirees that discontinued health insurance were adjusted
- c. Changes in the healthcare trend rate allowing for the return of the Health Insurance Fee
- d. Demographic and economic changes resulting from the 2017 experience study
- e. Discount rate increase from 3.42% to 3.69%

Changes to the benefits provided since the prior measurement date include:

- a. Changes of retiree registration entry date
- b. Requiring retiree to contribute \$200 monthly towards insurance premiums
- c. Various changes in Medicare eligible retirees including prescription coverage and other appropriate health benefit plans

For the current year, the District recognized OPEB expense of \$ 551,191 and revenue of \$ 334,025 for support provided by the State.

At year end, the District reported its proportionate share of the TRS's deferred outflows of resource 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	\$ 317,705	\$ 94,483
Changes in actuarial assumptions	99,906	1,798,733
Differences between projected and actual investment earnings	1,047	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	540,539	-
Total as of August 31, 2018 measurement date	\$ 959,197	\$ 1,893,216
Contributions paid to TRS subsequent to the measurement date	88,801	-
Total at fiscal year end	<u>\$ 1,047,998</u>	<u>\$ 1,893,216</u>

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

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

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

Fiscal Year Ending	Amount
August 31	
2020	\$ (168,389)
2021	(168,389)
2022	(168,389)
2023	(168,587)
2024	(168,700)
Thereafter	(91,565)

H. Medicare Part D

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2019, 2018 and 2017, the subsidy payments received by TRS-Care on behalf of the District were \$ 33,541, \$ 30,797 and \$ 29,878, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

I. Risk Management

Health Care

During the year ended August 31, 2019, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$ 248 per month per employee and employees, at their option, authorized payroll withholdings to provide dependents coverage under the Plan. All premiums were paid to Teacher Retirement System of Texas (Aetna). The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the Caddo Mills Independent School District and Aetna is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available from the company and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Workers Compensation

The District participates in the Texas Public Schools Worker's Compensation Project (SchoolComp). The District is partially self-funded to a loss fund maximum of \$ 32,858 for the 18-19 fiscal year. Additionally, the District incurred fixed costs of \$ 36,417 for their share of claims administration, loss control, record keeping, and cost of excess insurance.

Claims administration is provided by Creative Risk Funding, Inc. Reinsurance is provided for aggregate claim losses exceeding \$ 150,000. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

The accrued liability for workers compensation self insurance of \$ 37,423 includes \$ 32,858 of incurred but not reported claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuary calculation.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

I. Risk Management (Continued)

Changes in the workers compensation claims liability amounts in the periods of 2019 and 2018 are represented below:

	2019	2018
Beginning Claims Liability	\$ 43,314	\$ 33,719
Claims Incurred (Reduced)	31,993	31,048
Claim Payments	(37,884)	(21,453)
Ending Claims Liability	<u>\$ 37,423</u>	<u>\$ 43,314</u>

Unemployment Compensation Pool

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued 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.

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.

Other Risk Management

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

J. Litigation

The District does not appear to be involved in any litigation as of year end.

K. Interfund Balance and Activities

Transfers to and From Other Funds

Transfer From	Transfer To	Amount	Reason
General Fund	Campus Activity	\$ 2,414	Reclassifications

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

L. Commitments and Contingencies

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

M. Shared Service Arrangements

The District participates in cooperative programs for various educational and administrative services with other local districts. The District does not account for revenues or expenditures of these programs and does not disclose them in these basic financial statements.

<u>Shared Service Arrangements</u>	<u>Fiscal Agent</u>	<u>Service</u>
Tri-County Cooperative	Commerce Independent School District	Special Education
Hunt County Cooperative	Lone Oak Independent School District	Administrative and Support Services
NETCAT Consortium	Commerce Independent School District	Vocational Programs
Alternative Education Program	Caddo Mills Independent School District	Alternative Education Program

N. Revenue from Local and Intermediate Sources

The District received revenue from local and intermediate sources consisting of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Totals</u>
Property Tax Collections	\$ 6,075,086	\$ 1,496,333	\$ -	\$ 7,571,419
Tuition & Fees	123,000	-	-	123,000
Services to Other Districts	-	-	155,707	155,707
Investment Income	174,004	68,674	2,677	245,355
Food Service Income	-	-	360,988	360,988
Gifts and Bequests	50,049	-	16,965	67,014
Cocurricular/Extracurricular Activities	86,223	-	44,726	130,949
Other	6,754	-	1,951	8,705
Total	<u>\$ 6,515,116</u>	<u>\$ 1,565,007</u>	<u>\$ 583,014</u>	<u>\$ 8,663,137</u>

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2019

O. Receivables

Receivables at year end for the District's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Other Governmental	Totals
Due from Other Governments	\$ 1,158,949	\$ 30,741	\$ 65,522	\$ 1,255,212
Property Taxes Receivable	311,344	112,143	-	423,487
Less: Allowance for Uncollectible				
Property Taxes	(31,134)	(11,214)	-	(42,348)
Other Receivables	12,349	-	5,056	17,405
Net Receivables	<u>\$ 1,451,508</u>	<u>\$ 131,670</u>	<u>\$ 70,578</u>	<u>\$ 1,653,756</u>

P. Subsequent Events

The District's management has evaluated subsequent events through October 14, 2019, the date which the financial statements were available for use.

Q. State Aid Reconciliation

The State provides various types of funding for local school districts as provided for in state statute. The following reconciliation presents funding earned by the District in each category presented. Because of the State's delay in reconciling the funding to local districts, the summary below represents an estimate of earnings. The settleup with the State will occur some 9 to 10 months following the fiscal year end.

Funding is earned for: 1) Available – annual allocation based on prior year enrollment; 2) Foundation – annual allocation based on student attendance, property tax collections and valuations, and special student population; 3) Instructional Facilities Allotment – based on property wealth; and 4) Existing Debt Allotment – based on eligible debt, student attendance and property wealth. Various other sources are received but not reconciled here as these are the major sources of funding.

	Available	Foundation	IFA	EDA
CY Summary of Finances (SOF)	\$ 803,731	\$ 8,783,488	\$ 215,557	\$ 371,600
Prior Period Settle-ups	-	(4,526)	431,879	10,902
August Instructional Days Change	(21,341)	229,659	-	-
Financial Statement Earnings	<u>\$ 782,390</u>	<u>\$ 9,008,621</u>	<u>\$ 647,436</u>	<u>\$ 382,502</u>
Financial Statement Amounts				
SOF Receivable (Overpayment) *	\$ -	\$ 336,666	\$ 12,482	\$ 18,259
August Instructional Days Receivable	31,681	790,602	-	-

* Overpayments are reported as Unearned Revenue in the government-wide and governmental fund type financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2019

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and Intermediate Sources	\$ 5,699,924	\$ 6,493,259	\$ 6,515,116	\$ 21,857
5800	State Program Revenues	9,027,249	10,064,668	10,520,161	455,493
5900	Federal Program Revenues	50,000	330,000	334,236	4,236
5020	Total Revenues	\$ 14,777,173	\$ 16,887,927	\$ 17,369,513	\$ 481,586
EXPENDITURES					
Current:					
Instruction and Instructional Related Services:					
0011	Instruction	\$ 7,920,301	\$ 8,484,902	\$ 8,479,389	\$ 5,513
0012	Instructional Resources and Media Services	310,211	324,014	312,567	11,447
0013	Curriculum and Staff Development	116,106	118,106	112,512	5,594
	Total Instruction and Instr. Related Services	\$ 8,346,618	\$ 8,927,022	\$ 8,904,468	\$ 22,554
Instructional and School Leadership:					
0021	Instructional Leadership	\$ 205,062	\$ 168,151	\$ 163,274	\$ 4,877
0023	School Leadership	1,079,336	1,159,649	1,152,564	7,085
	Total Instructional and School Leadership	\$ 1,284,398	\$ 1,327,800	\$ 1,315,838	\$ 11,962
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	\$ 286,698	\$ 301,105	\$ 298,582	\$ 2,523
0033	Health Services	148,244	165,335	161,237	4,098
0034	Student (Pupil) Transportation	577,583	658,268	627,154	31,114
0036	Cocurricular/Extracurricular Activities	774,099	1,244,238	1,141,495	102,743
	Total Support Services - Student (Pupil)	\$ 1,786,624	\$ 2,368,946	\$ 2,228,468	\$ 140,478
Administrative Support Services:					
0041	General Administration	\$ 892,923	\$ 941,219	\$ 934,180	\$ 7,039
	Total Administrative Support Services	\$ 892,923	\$ 941,219	\$ 934,180	\$ 7,039
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	\$ 1,740,863	\$ 2,556,063	\$ 2,500,629	\$ 55,434
0052	Security and Monitoring Services	74,800	74,800	65,783	9,017
0053	Data Processing Services	106,757	113,020	110,028	2,992
	Total Support Services - Nonstudent Based	\$ 1,922,420	\$ 2,743,883	\$ 2,676,440	\$ 67,443
Debt Service:					
0071	Principal on Long-Term Debt	\$ 97,000	\$ 97,000	\$ 97,000	\$ -
0072	Interest on Long-Term Debt	35,900	35,900	35,829	71
	Total Debt Service	\$ 132,900	\$ 132,900	\$ 132,829	\$ 71
Capital Outlay:					
0081	Capital Outlay	\$ -	\$ 1,628,300	\$ 1,512,978	\$ 115,322
	Total Capital Outlay	\$ -	\$ 1,628,300	\$ 1,512,978	\$ 115,322
Intergovernmental Charges:					
0093	Payments for Shared Service Arrangements	\$ 293,290	\$ 293,290	\$ 274,383	\$ 18,907
0099	Other Intergovernmental Charges	118,000	136,200	136,158	42
	Total Intergovernmental Charges	\$ 411,290	\$ 429,490	\$ 410,541	\$ 18,949
6030	Total Expenditures	\$ 14,777,173	\$ 18,499,560	\$ 18,115,742	\$ 383,818
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (1,611,633)	\$ (746,229)	\$ 865,404
OTHER FINANCING SOURCES (USES)					
8911	Transfers Out	\$ -	\$ -	\$ (2,414)	\$ (2,414)
7080	Net Other Financing Sources (Uses)	\$ -	\$ -	\$ (2,414)	\$ (2,414)
1200	Net Change in Fund Balance	\$ -	\$ (1,611,633)	\$ (748,643)	\$ 862,990
0100	Fund Balance - Beginning (September 1)	5,780,307	5,780,307	5,780,307	-
3000	Fund Balance - Ending (August 31)	\$ 5,780,307	\$ 4,168,674	\$ 5,031,664	\$ 862,990

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED AUGUST 31, 2019

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
District's proportion of the net pension liability	0.0084722598%	0.0079542837%	0.0077941538%	0.0077877000%	0.0044742000%
District's proportionate share of the net pension liability	\$ 4,663,337	\$ 2,543,351	\$ 2,945,295	\$ 2,752,848	\$ 1,195,121
State's proportionate share of the net pension liability associated with the District	<u>8,918,885</u>	<u>5,204,390</u>	<u>6,146,560</u>	<u>5,817,266</u>	<u>4,868,198</u>
Total	<u>\$ 13,582,222</u>	<u>\$ 7,747,741</u>	<u>\$ 9,091,855</u>	<u>\$ 8,570,114</u>	<u>\$ 6,063,319</u>
District's covered-employee payroll (for Measurement Year)	\$ 10,467,182	\$ 9,842,872	\$ 8,685,690	\$ 8,855,981	\$ 8,378,757
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	44.55%	25.84%	33.91%	31.08%	14.26%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%	78.00%	78.43%	83.25%

Note: Only five years of data is presented in accordance with GASB 68, paragraph 138. "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."

* The years above present data for the measurement period ending date. The measurement period represents the period for which the pension plan prepares its reports which provides a 12 month delay for financial reporting in accordance with GASB 68.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED AUGUST 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 315,932	\$ 285,409	\$ 258,055	\$ 248,121	\$ 224,335
Contributions in relations to the contractual required contributions	<u>(315,932)</u>	<u>(285,409)</u>	<u>(258,055)</u>	<u>(248,121)</u>	<u>(224,335)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 11,293,575	\$ 10,467,182	\$ 9,842,872	\$ 8,685,690	\$ 8,855,981
Contributions as a percentage of covered employee payroll	2.80%	2.73%	2.62%	2.86%	2.53%

Note: Only five years of data is presented in accordance with GASB 68, paragraph 138. "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."

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED AUGUST 31, 2019

	<u>2018*</u>	<u>2017*</u>
District's proportion of the Net OPEB Liability (Asset)	0.0119904548%	0.0110045926%
District's proportionate share of the Net OPEB Liability (Asset)	\$ 5,986,944	\$ 4,785,484
State's proportionate share of the Net OPEB Liability (Asset) associated with the District	<u>9,183,066</u>	<u>7,932,148</u>
 Total	 <u>\$ 15,170,010</u>	 <u>\$ 12,717,632</u>
 District's covered-employee payroll (for Measurement Year)	 \$ 10,467,182	 \$ 9,842,872
 District's proportionate share of the Net OPEB Liability as a percentage of it's covered-employee payroll	 57.20%	 48.62%
 Plan fiduciary net position as a percentage of the Total OPEB Liability	 1.57%	 0.91%

Note: Only two years of data is presented in accordance with GASB 75 paragraph 245. "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."

* The years above present data for the measurement period ending date. The measurement period represents the period for which the pension plan prepares its reports which provides a 12 month delay for financial reporting in accordance with GASB 68.

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED AUGUST 31, 2019

	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 88,801	\$ 82,717
Contributions in relations to the contractual required contributions	<u>(88,801)</u>	<u>(82,717)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 11,293,575	\$ 10,467,182
Contributions as a percentage of covered employee payroll	0.79%	0.79%

Note: Only two years of data is presented in accordance with GASB 75, paragraph 245. "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."

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

A. Budget

The official budget was prepared for adoption for all Government Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20 of the preceding fiscal year, 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 after ten days' public notice of the meeting has been 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 be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

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

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at the time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

B. Defined Benefit Pension Plan

1. Changes of Assumptions

The following changes occurred in the plan assumptions:

- a. A roll forward method was used to determine the August 31, 2018 valuation.
- b. Demographic assumptions including post retirement mortality, termination rates and rates of retirement were updated based on the experience study performed for the period ended August 31, 2017.
- c. The same experience study resulted in changes to the economic assumptions including rates of salary increases for individual participants.
- d. The discount rate was decreased from 8.0% to 6.907%.
- e. The assumed long term rate of return decreased from 8.0% to 7.25%

2. Changes of Benefit Terms

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

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

C. OPEB Healthcare Plan

1. Changes of Assumptions

The following changes occurred in the plan assumptions.

- a. A roll forward method was used to develop the August 31, 2018 valuation.
- b. Adjustments were made for known retirees that discontinued their health insurance in the 2018 year.
- c. The health care trend rate assumption was adjusted to allow for the anticipated return of the Health Insurance Fee.
- d. The demographic and economic assumptions were changed to consider the result of the experience study for the year ended August 31, 2017.
- e. The discount rate was increased from 3.42% to 3.69%

2. Changes of Benefit Terms

The following changes have occurred in the benefits terms:

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

OTHER SUPPLEMENTARY INFORMATION

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2019

Tax Roll Year	Last Ten Years Ended August 31	1	2	3	10	20	30	30a	40	50
		Tax Rates		Assessed/Appraised	Beginning	Current			Entire	Ending
		Maintenance	Debt	Value For School	Balance	Year's	Maintenance	Debt Service	Year's	Balance
			Service	Tax Purposes	9/1/2018	Total Levy	Tax Collections	Tax Collections	Adjustments	8/31/2019
XXXX	2010 and Prior Years	Various	Various	Various	\$ 33,360	\$ -	\$ -	\$ -	\$ (316)	\$ 33,044
2010	2011	1.040000	0.500000	347,754,394	8,206	-	-	-	(63)	8,143
2011	2012	1.040000	0.500000	358,390,072	17,219	-	-	-	(389)	16,830
2012	2013	1.040000	0.500000	356,778,614	20,708	-	160	77	(573)	19,898
2013	2014	1.040000	0.500000	354,669,357	24,672	-	5,607	2,695	14,255	30,625
2014	2015	1.040000	0.461000	370,182,686	39,168	-	6,090	2,699	12,062	42,441
2015	2016	1.040000	0.415000	367,250,944	32,865	-	8,144	3,250	12,342	33,813
2016	2017	1.040000	0.415000	391,350,928	51,445	-	15,289	6,101	9,617	39,672
2017	2018	1.040000	0.415000	453,113,058	115,760	-	34,074	13,597	(417)	67,672
2018	2019	1.170000	0.285000	516,709,633	-	7,518,126	5,939,884	1,446,892	(1)	131,349
1000	TOTALS				\$ 343,403	\$ 7,518,126	\$ 6,009,248	\$ 1,475,311	\$ 46,517	\$ 423,487

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2019

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and Intermediate Sources	\$ 391,384	\$ 391,384	\$ 364,253	\$ (27,131)
5800	State Program Revenues	20,000	27,302	26,720	(582)
5900	Federal Program Revenues	385,105	385,105	421,833	36,728
5020	Total Revenues	\$ 796,489	\$ 803,791	\$ 812,806	\$ 9,015
EXPENDITURES					
Support Services - Student (Pupil):					
0035	Food Services	\$ 782,379	\$ 829,793	\$ 814,423	\$ 15,370
	Total Support Services - Student (Pupil)	\$ 782,379	\$ 829,793	\$ 814,423	\$ 15,370
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	\$ 7,850	\$ 7,850	\$ 6,927	\$ 923
	Total Support Services - Nonstudent Based	\$ 7,850	\$ 7,850	\$ 6,927	\$ 923
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist - SSA	\$ 6,260	\$ 6,260	\$ 6,260	\$ -
	Total Intergovernmental Charges	\$ 6,260	\$ 6,260	\$ 6,260	\$ -
6030	Total Expenditures	\$ 796,489	\$ 843,903	\$ 827,610	\$ 16,293
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (40,112)	\$ (14,804)	\$ 25,308
1200	Net Change in Fund Balance	\$ -	\$ (40,112)	\$ (14,804)	\$ 25,308
0100	Fund Balance - Beginning (September 1)	61,159	61,159	61,159	-
3000	Fund Balance - Ending (August 31)	\$ 61,159	\$ 21,047	\$ 46,355	\$ 25,308

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED AUGUST 31, 2019

Data Control Codes				Variance with Final Budget Positive (Negative)	
Budgeted Amounts					
	Original	Final	Actual		
REVENUES					
5700	Local and Intermediate Sources	\$ 2,102,319	\$ 1,443,761	\$ 1,565,007	\$ 121,246
5800	State Program Revenues	555,078	567,292	1,029,938	462,646
5020	Total Revenues	\$ 2,657,397	\$ 2,011,053	\$ 2,594,945	\$ 583,892
EXPENDITURES					
Debt Service:					
0071	Principal on Long-term Debt	\$ 900,000	\$ 900,000	\$ 900,000	\$ -
0072	Interest on Long-term Debt	1,152,738	1,152,738	1,152,737	1
0073	Debt Issuance Costs and Fees	10,000	10,000	4,754	5,246
	Total Debt Service	\$ 2,062,738	\$ 2,062,738	\$ 2,057,491	\$ 5,247
6030	Total Expenditures	\$ 2,062,738	\$ 2,062,738	\$ 2,057,491	\$ 5,247
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ 594,659	\$ (51,685)	\$ 537,454	\$ 589,139
1200	Net Change in Fund Balance	\$ 594,659	\$ (51,685)	\$ 537,454	\$ 589,139
0100	Fund Balance - Beginning (September 1)	1,450,277	1,450,277	1,450,277	-
3000	Fund Balance - Ending (August 31)	\$ 2,044,936	\$ 1,398,592	\$ 1,987,731	\$ 589,139

CADDO MILLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2019

<u>Data Control Codes</u>		<u>Response</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other Sources of information concerning nonpayment of any terms of any debt Agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the Financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material Weaknesses in internal controls over financial reporting and compliance For local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more Than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial Statements at fiscal year end.	\$ 2,933,748
SF11	Net Pension Assets (1920) at fiscal year end.	\$ -0-
SF12	Net Pension Liabilities (2540) at fiscal year end.	\$ 4,663,337
SF13	Net Pension Expense (6147) at fiscal year end.	\$ -0-

