

OFFICIAL STATEMENT
Dated August 21, 2019

NEW ISSUE – BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED S&P RATING: – “AAA”/“A”
PSF Guaranteed
(See “THE PERMANENT SCHOOL FUND GUARANTEE
PROGRAM” and “OTHER PERTINENT INFORMATION –
Municipal Bond Rating” herein)

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

*The Bonds **are** designated as “qualified tax-exempt obligations” for financial institutions.*



\$7,940,000

**HUCKABAY INDEPENDENT SCHOOL DISTRICT
(ERATH AND EASTLAND COUNTIES, TEXAS)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

Dated Date: August 15, 2019

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

Interest Accrues from Date of Delivery

The “Huckabay Independent School District Unlimited Tax School Building, Series 2019” (the “Bonds”), as shown on page -ii- herein, are direct obligations of the Huckabay Independent School District (the “District”) and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 4, 2019 (the “Election”), and an order authorizing the issuance of the Bonds (the “Order”), adopted by the Board of Trustees (the “Board”) of the District on August 21, 2019. See “THE BONDS – Authority for Issuance” herein.

Interest on the Bonds will accrue from the Date of the Delivery (defined below) of the Bonds, will be payable until stated maturity or prior redemption on February 15 and August 15 of each year, commencing February 15, 2020, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

Proceeds from the sale of the Bonds will be used (i) for the purposes of constructing, acquiring, renovating, and equipping school buildings, and (ii) to pay the costs of issuance of the Bonds. See “PLAN OF FINANCING – Sources and Uses of Funds” herein.

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

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

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers named below (the “Underwriters”) and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Underwood Law Firm, P.C., Amarillo, Texas, Bond Counsel (see “LEGAL MATTERS”; “APPENDIX D – FORM OF BOND COUNSEL’S OPINION” hereto). Certain matters will be passed upon for the Underwriters by Norton Rose Fulbright US LLP, San Antonio, Texas, as counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the services of DTC on or about September 17, 2019 (the “Date of Delivery”).

OPPENHEIMER & CO.

FTN FINANCIAL CAPITAL MARKETS

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

\$7,940,000

**HUCKABAY INDEPENDENT SCHOOL DISTRICT
(ERATH AND EASTLAND COUNTIES, TEXAS)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

CUSIP No. Prefix 443614^(*)

\$2,830,000 Serial Bonds

<u>Stated Maturity August 15</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No. Suffix⁽¹⁾</u>
2020	375,000	2.000	1.090	AA0
2021	290,000	4.000	1.120	AB8
2022	285,000	4.000	1.170	AC6
2023	275,000	4.000	1.220	AD4
2024	270,000	5.000	1.270	AE2
2025	270,000	5.000	1.300	AF9
2026	265,000	5.000	1.350	AG7
2027	265,000	5.000	1.400	AH5
2028	270,000	4.000	1.470 ⁽¹⁾	AJ1
2029	265,000	4.000	1.550 ⁽¹⁾	AK8

(Interest to accrue from the Date of Delivery of the Bonds)

\$5,110,000 Term Bonds

\$540,000, 4.000% Term Bond due August 15, 2031, Priced to Yield 1.650%⁽¹⁾, CUSIP No. Suffix AM4

\$450,000, 4.000% Term Bond due August 15, 2033, Priced to Yield 1.750%⁽¹⁾, CUSIP No. Suffix AP7

\$385,000, 4.000% Term Bond due August 15, 2035, Priced to Yield 1.850%⁽¹⁾, CUSIP No. Suffix AR3

\$420,000, 4.000% Term Bond due August 15, 2037, Priced to Yield 1.950%⁽¹⁾, CUSIP No. Suffix AT9

\$450,000, 4.000% Term Bond due August 15, 2039, Priced to Yield 2.050%⁽¹⁾, CUSIP No. Suffix AV4

\$490,000, 4.000% Term Bond due August 15, 2041, Priced to Yield 2.090%⁽¹⁾, CUSIP No. Suffix AX0

\$810,000, 4.000% Term Bond due August 15, 2044, Priced to Yield 2.170%⁽¹⁾, CUSIP No. Suffix BA9

\$1,565,000, 4.000% Term Bond due August 15, 2049, Priced to Yield 2.250%⁽¹⁾, CUSIP No. Suffix BF8

The District reserves the option to redeem the Bonds maturing on and after August 15, 2028, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on August 15 in the years 2031, 2033, 2035, 2037, 2039, 2041, 2044, and 2049 are subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.

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

⁽¹⁾ Yield calculated based on the assumption the Bonds denoted and sold at a premium will be redeemed on August 15, 2027, the first optional call date for such Bonds, at a price of par plus accrued interest to the date of redemption.

**HUCKABAY INDEPENDENT SCHOOL DISTRICT
200 CR 421
Stephenville, Texas 76401**

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Shane Stegall	President	November 2022	Heavy Equipment Operator
Chad Hale	Vice President	November 2020	Contractor
Jeff Heath	Secretary	November 2020	Regional Manager – USDA
Bill Dowell	Member	November 2022	Farmer
Tricia Klein	Member	November 2022	CRNA
Cody Pike	Member	November 2022	Equine Veterinarian
VACANT ⁽¹⁾			

⁽¹⁾ On June 20, 2019, Chrissy Dowell resigned from the Board. The vacancy will be filled by the appointment of a trustee on or before December 17, 2019, in accordance with Board policy.

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Troy Roberts	Superintendent
Tammie Shipman	Business Manager

CONSULTANTS AND ADVISORS

Underwood Law Firm, P.C., Amarillo, Texas	Bond Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Cameron L. Gulley, CPA, Eastland, Texas	Certified Public Accountants

For Additional Information Contact:

Troy Roberts
Huckabay Independent School District
200 CR 421
Stephenville, Texas 76401
(254) 968-8476
troberts@hisd.us

Christian Merritt
Live Oak Public Finance, LLC
1515 S. Capital of Texas Hwy., Suite 206
Austin, Texas 78746
(512) 726-5547
cmerritt@liveoakpf.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

COVER PAGE.....	i	The Tax Code as Applied to the District	32
MATURITY SCHEDULE.....	ii	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS	
BOARD OF TRUSTEES, ADMINISTRATION,		IN TEXAS	33
CONSULTANTS & ADVISORS	iii	Litigation Relating to the Texas Public School Finance	
USE OF INFORMATION IN THE OFFICIAL STATEMENT	iv	System	33
TABLE OF CONTENTS.....	v	CURRENT PUBLIC SCHOOL FINANCE SYSTEM.....	34
OFFICIAL STATEMENT SUMMARY INFORMATION	vi	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE	
INTRODUCTION.....	1	DISTRICT	38
PLAN OF FINANCING.....	1	TAX RATE LIMITATIONS	38
Purpose.....	1	DEBT LIMITATIONS	39
Sources and Uses of Funds.....	1	EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER	
THE BONDS	2	POST-EMPLOYMENT BENEFITS.....	40
General Description	2	INVESTMENT POLICIES.....	40
Authority for Issuance	2	Legal Investments.....	40
Security for Payment	2	Investment Policies	42
Permanent School Fund Guarantee.....	2	Additional Provisions.....	42
Redemption Provisions of the Bonds	2	LEGAL MATTERS	42
Notice of Redemption	3	Legal Opinions and No-Litigation Certificate.....	42
Defeasance	4	Litigation	43
Amendments	5	TAX MATTERS.....	43
Default and Remedies	5	Opinion	43
Payment Record.....	6	Collateral Tax Consequences	44
Legality.....	6	Tax Accounting Treatment of Original Issue Premium.....	44
Delivery	6	Tax Accounting Treatment of Original Issue Discount	44
Future Issues.....	6	Qualified Tax-Exempt Obligations	45
REGISTRATION, TRANSFER AND EXCHANGE.....	6	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
Paying Agent/Registrar.....	6	PUBLIC FUNDS IN TEXAS	45
Successor Paying Agent/Registrar.....	7	CONTINUING DISCLOSURE	46
Record Date	7	Annual Reports	46
Registration, Transferability and Exchange	7	Notice of Certain Events	46
Limitation on Transfer of Bonds	7	Availability of Information from MSRB	47
Replacement Bonds	8	Limitations and Amendments	47
BOOK-ENTRY-ONLY SYSTEM.....	8	Compliance with Prior Agreements	48
Use of Certain Terms in Other Sections of This Official		OTHER PERTINENT INFORMATION.....	48
Statement.....	9	Authenticity of Financial Information.....	48
Effect of Termination of Book-Entry-Only System	9	Registration and Qualification of Bonds for Sale.....	48
THE PERMANENT SCHOOL FUND GUARANTEE		Municipal Bond Rating	48
PROGRAM.....	10	Financial Advisor.....	48
AD VALOREM TAX PROCEDURES	28	Underwriting.....	49
Property Tax Code and County Wide Appraisal District	28	Certification of the Official Statement	49
Ad Valorem Taxation	28	Forward Looking Statements	49
Taxable Property, Exemptions and Agricultural Exclusions.....	29	Information from External Sources	50
Levy and Collection of Taxes.....	31	Authorization of the Official Statement	50
APPENDIX A – SELECTED FINANCIAL INFORMATION OF THE DISTRICT.....	A-1		
APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY	B-1		
APPENDIX C – AUDITED FINANCIAL STATEMENTS.....	C-1		
APPENDIX D – FORM OF BOND COUNSEL'S OPINION.....	D-1		

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	The Huckabay Independent School District (the "District") is located in Erath and Eastland Counties, Texas. The District is located in Stephenville, Texas on State Highway 108. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS	The Bonds mature on August 15 in each of the years 2020 through 2049, inclusive. Interest on the Bonds shall accrue from the Date of Delivery (identified below) and is payable semiannually on February 15 and August 15, commencing February 15, 2020, until stated maturity or prior redemption.
DATED DATE	August 15, 2019.
DATE OF DELIVERY	September 17, 2019.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on and after August 15, 2028, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on August 15 in the years 2031, 2033, 2035, 2037, 2039, 2044, and 2049 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity in accordance with the provisions of the Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. The Bonds are designated as "qualified tax-exempt obligations" for financial institutions.
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
MUNICIPAL BOND RATING ...	S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A" to the District's Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein.
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional ad valorem tax-supported debt in the calendar year 2019.
PAYMENT RECORD	The District has never defaulted on the payment of its bond indebtedness.
DELIVERY	When issued, anticipated to occur on or about September 17, 2019.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Underwood Law Firm, P.C., Amarillo, Texas, Bond Counsel (see "THE BONDS – Legality" and "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" herein).

OFFICIAL STATEMENT
relating to
\$7,940,000
HUCKABAY INDEPENDENT SCHOOL DISTRICT
(ERATH AND EASTLAND COUNTIES, TEXAS)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement of Huckabay Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$7,940,000 Unlimited Tax School Building Bonds, Series 2019 (the "Bonds").

This Official Statement, which includes the cover page and the appendices hereto, provides certain 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 from the District and, during the offering period, from the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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, included 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 such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

PLAN OF FINANCING

Purpose

The Bonds are being issued: (i) for the purposes of constructing, acquiring, renovating, and equipping school buildings, and (ii) to pay the costs of issuance of the Bonds.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, along with the District's contribution, if any, will be applied approximately as follows:

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$ 7,940,000.00
Reoffering Premium on the Bonds	1,137,248.90
TOTAL SOURCES	<u>\$ 9,077,248.90</u>
<u>Uses of Funds:</u>	
Deposit to Construction Fund	\$ 8,900,000.00
Underwriters' Discount	57,663.74
Costs of Issuance	119,585.16
TOTAL USES	<u>\$ 9,077,248.90</u>

THE BONDS

General Description

The Bonds will be dated August 15, 2019 and will accrue interest from the Date of Delivery (defined herein), and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2020, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

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

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 4, 2019 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on August 21, 2019.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

Optional Redemption. The District reserves the option to redeem the Bonds maturing on and after August 15, 2028, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Redemption. The Bonds maturing on August 15 in the years 2031, 2033, 2035, 2037, 2039, 2041, 2044, and 2049 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the District, in part, by lot or other customary method, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the District's interest and sinking fund, on the dates and in the respective principal amounts as set forth below.

**Term Bonds
Stated to Mature
on August 15, 2031
(4.000% Coupon)**

Year	Principal Amount (\$)
2030	270,000
2031	270,000*

**Term Bonds
Stated to Mature
on August 15, 2033
(4.000% Coupon)**

Year	Principal Amount (\$)
2032	270,000
2033	180,000*

**Term Bonds
Stated to Mature
on August 15, 2035
(4.000% Coupon)**

Year	Principal Amount (\$)
2034	190,000
2035	195,000*

**Term Bonds
Stated to Mature
on August 15, 2037
(4.000% Coupon)**

Year	Principal Amount (\$)
2036	205,000
2037	215,000*

**Term Bonds
Stated to Mature
on August 15, 2039
(4.000% Coupon)**

Year	Principal Amount (\$)
2038	220,000
2039	230,000*

**Term Bonds
Stated to Mature
on August 15, 2041
(4.000% Coupon)**

Year	Principal Amount (\$)
2040	240,000
2041	250,000*

**Term Bonds
Stated to Mature
on August 15, 2044
(4.000% Coupon)**

Year	Principal Amount (\$)
2042	260,000
2043	270,000
2044	280,000*

**Term Bonds
Stated to Mature
on August 15, 2049
(4.000% Coupon)**

Year	Principal Amount (\$)
2045	290,000
2046	305,000
2047	310,000
2048	320,000
2049	340,000*

* Stated maturity.

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

The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to the mandatory sinking fund provisions of the Order shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District 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, or (ii) shall have been redeemed pursuant to the optional redemption provisions the Order and not previously credited to a mandatory sinking fund redemption.

Selection of Bonds for Redemption

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

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day

next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

Defeasance

The Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law.

Under current Texas law, any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with an authorized escrow agent (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) certified, in the case of a net defeasance, by an independent public accounting firm of national reputation, the District's Financial Advisor, the Paying Agent/Registrar, or another qualified third party certifying such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment.

"Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating

requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

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

Amendments

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

Default and Remedies

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform 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, 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, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as discussed below. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of any such remedy may be difficult and time consuming. There is no acceleration of maturity of the Bonds in the event of default and, consequently, a registered owner could be required to enforce such remedy on a periodic basis. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain

circumstances.” The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another 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 the rights of bondholders are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

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. Also see “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the duties of DTC with regard to ownership of Bonds.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District’s Bond Counsel, Underwood Law Firm, P.C., Amarillo, Texas, as bond counsel to the District (“Bond Counsel”).

Delivery

When issued; anticipated to occur on or about September 17, 2019 (the “Date of Delivery”).

Future Issues

The District does not anticipate the issuance of additional ad valorem tax-supported debt in calendar year 2019.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiples thereof for any one stated maturity, and principal and interest will be paid

by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the last business day of the month next preceding each interest payment date. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is 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 original date payment was due.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, wrongfully taken, a new Bond of like kind and in the same maturity and 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 District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar 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 bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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 three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). (But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% 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 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 2018 distributions to the ASF amounted to an estimated \$247 per student and the total amount distributed to the ASF was \$1,235.8 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, 2018, 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, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when 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, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 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 proposes 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. That constitutional change is subject to approval at a State-wide referendum to be conducted on November 5, 2019.

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, should State voters approve the proposed constitutional amendment described above on November 5, 2019.

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 Constitutional Amendment” 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 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 equities at 14% and emerging international 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.

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, 2018, the Fund's financial assets portfolio was invested as follows: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% 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 Constitutional Amendment" 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. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and

provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Commissioner for designation as a "charter district" and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating under such charters (though as of such date, 15 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

Guarantee Program and the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” and “2017 Legislative Changes to the Charter District Bond Guarantee Program.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of April 30, 2019, the amount of outstanding bond guarantees represented 69.90% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the

Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% 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, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. 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. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

Potential Impact of Hurricane Harvey on the PSF

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

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under “The School District Bond Guarantee Program” and “The Charter District Bond Guarantee Program,” both parts of the Bond Guarantee Program operate in accordance with the Act as “intercept” programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

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Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2014	\$ 27,596,692,541	\$ 38,445,519,225
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 ⁽²⁾	33,860,358,647	44,074,197,940

⁽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, 2018, 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, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of \$34,917,398,274 and a market value of \$44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2014	\$ 58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 ⁽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, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 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), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>
2014 ⁽²⁾	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
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⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

⁽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⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

⁽³⁾ At April 30, 2019 (based on unaudited data, which is subject to adjustment), there were \$82,005,532,177 of bonds guaranteed under the Guarantee Program, representing 3,269 school district issues, aggregating \$80,311,477,177 in principal amount and 46 charter district issues, aggregating \$1,694,055,000 in principal amount. At April 30, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$3,265,722,717 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2018

The following discussion is derived from the Annual Report for the year ended August 31, 2018, 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, when filed, 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, 2018, 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 2018, the Fund balance was \$44.0 billion, an increase of \$2.6 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. 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, 2018, were 7.23%, 7.68% and 6.92%, 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) real assets, including cash, were 8.69%, 7.78%, and 4.23%, 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, 2018, 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, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$4.2 billion and capital commitments to private equity limited partnerships for a total of \$5.2 billion. Unfunded commitments at August 31, 2018, totaled \$1.5 billion in real estate investments and \$2.1 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, 2018, the remaining commitments totaled approximately \$2.6 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, outperforming the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$4.0 billion, a decrease of \$1.4 billion from fiscal year 2017 earnings of \$5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, 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 17.1% for the fiscal year ending August 31, 2018. 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 2017 and 2018, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed \$79.1 billion in bonds issued by 858 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 7,242 school district and charter district bond issues totaling \$176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.8 billion or 6.5%. The State Capacity Limit increased by \$6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only \$5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 Constitutional Amendment

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an

increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 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 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 provide 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 Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Erath County Appraisal District and the Eastland County Appraisal District (together, the "Appraisal District") are responsible for appraising property within the District as of January 1 of each year. The appraisal values set by each Appraisal District are subject to review and change by the respective Appraisal Review Board (each, an "Appraisal Review Board") which is appointed by the respective Appraisal District's Board of Directors. Such appraisal rolls, as approved by the respective Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

Ad Valorem Taxation

The Bonds are payable from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount. Reference is hereby made to the Tax Code for identification of property subject to taxation, property exempt or which may be exempted from taxation, the appraisal of property for taxation purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Among other features, the Tax Code contains the following provisions with respect to the assessment of property and the levy and collection of ad valorem taxes:

- (1) a single appraisal district in each county to appraise property for taxation purposes for all taxing units located wholly or partly within the county;
- (2) subject to certain exceptions, all property to be assessed at 100% of its market value and the assessment of property on the basis of a percentage of its appraised value is prohibited;
- (3) requires an "effective tax rate" and "rollback tax rate" to be annually calculated and the holding of a referendum election whenever the proposed tax rate exceeds the roll back tax rate; and

- (4) the value of property is generally assessed for purposes of taxation on January 1 of each year and taxes levied each year generally become due and payable on October 1 and become delinquent on January 31 of the year following the year in which the taxes are imposed.

Taxable Property, Exemptions and Agricultural Exclusions

All real property located in the taxing unit and certain personal property is taxable property unless exempt by law. With certain exceptions, intangible personal property is not taxable property. Excluding open space land (ranch and farm land) and timberland that may be taxed on the basis of its productive capacity, property subject to taxation is to be taxed at 100% of its market value. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2016, the valuation of assessment of oil and gas reserves depends upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence 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 residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Property exempt from taxation includes: (1) property owned and used for public purposes by the State of Texas or its political subdivisions; (2) property exempt by federal law; (3) family supplies, household goods and personal effects not held or used in the production of income; (4) certain property owned by charitable organizations, youth development associations, and religious organizations; (5) certain properties used for school purposes; (6) solar and wind-powered energy devices; (7) farm products, livestock, and poultry in the hands of the producer, and family supplies for home and farm use; (8) implements of husbandry used in the production of farm and ranch products; (9) personally owned automobiles (unless affirmatively provided to be taxed by taxing entity); and (10) property owned by disabled veterans or by the surviving spouse and surviving minor children of disabled veterans is exempt from taxation in amounts ranging from \$5,000 to \$12,000 depending on the disability rating of the veteran.

The Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled, if a residence is donated by a charitable organization, to an exemption equal to the percentage of the veteran's disability, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable donation as of the date the donation is made.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

A city may create, and a county may participate in, a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraised value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "Public Hearing and Maintenance and Operations Tax Rate Limitation").

Article VIII, Section 1-j of the Constitution exempts from taxation goods, wares, merchandise, other tangible personal property and ores (other than oil, natural gas and other petroleum products) acquired or imported for assembling, storing, manufacturing, processing or fabricating purposes while such property is being detained in the State, and such property is to be forwarded outside the State within 175 days after the date of its acquisition or importation. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax is taken before April 1, 1990. The official action to tax such property can subsequently be rescinded and, if rescinded, such property shall thereafter be exempt from taxation.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action prior to January 1 of the first tax years in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond.

With respect to school district taxation, \$25,000 of the market value of the residence homestead of an adult is exempt from taxation; and for persons 65 years of age or older and certain disabled persons, an additional exemption is granted not to exceed \$10,000 of the market value of the residence homestead of such persons. Furthermore, the total amount of taxes imposed on the residence homestead of persons 65 years of age or older (and receiving the additional \$10,000 exemption mentioned above) may not be increased while it remains the residence homestead of the person or that person's spouse who received the exemption, unless improvements (other than to comply with government requirements) are made to such homestead, and such freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. On November 3, 2015, Texas voters approved an amendment to this law to

provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

Additionally, a percentage of the value of the residence homestead of a person may be exempt from taxation at the option of the governing body of the taxing entity, such exemption not to exceed 20% each year. Furthermore, not less than \$3,000 of the market value of the residence homestead of a person 65 years of age or older and certain disabled persons may be exempt from taxation, if such exemption is allowed by the governing body of the taxing entity or imposed by referendum election.

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. This provision was not extended by the 86th Texas Legislature.

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 agency. Generally, by the later of September 30th for 60 days after the certified appraisal roll is delivered to the District, the rate of taxation must be set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. See "TAX RATE LIMITATIONS – Public Hearing and Maintenance and Operations Tax Rate Limitations."

Taxes are due October 1, or when billed, whichever is the later to occur, and such taxes become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and interest accrues on the delinquent tax amount at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) of the delinquent tax, penalty, and interest collected may be imposed by the District. Split payment of taxes owed, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances are also allowed under existing statutory authority.

Public Hearing and Maintenance and Operations Tax Rate Limitation

During the 2019 legislative session, the Texas Legislature made numerous changes to the requirements for the levy and collection of ad valorem taxes and the calculation of defined tax rates, including particularly those contained in 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 analyzing how the provisions of HB 3 and SB 2 will be implemented, and the information contained herein reflects the District's understanding based on information available to the District as of the date of this Official Statement, which is subject to change. Reference is made to HB 3, SB 2 and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

A school district's tax rate consists of two components: (1) its M&O tax rate for funding of maintenance and operations expenditures in the current year, and (2) its I&S tax rate for funding debt service in the current year. Under State law, the assessor for the District must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the District to the governing body of the District by August 1 or as soon as practicable thereafter.

In setting its tax rate for the 2019 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the district's voter-approval tax rate without approval by a majority of the voters voting at an election approving the higher rate. The voter-approval tax rate for a school district for the 2019 tax year is the sum of (A) the product of the district's State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district's M&O tax rate for the 2018 tax year, less the sum of (a) \$1.00 and (b) any amount by which the district is required to reduce its Enrichment Tax Rate or (ii) the rate of \$0.04, and (C) the district's I&S tax rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage"). With certain exceptions, if a district's voter-approval tax rate, after subtracting its I&S tax rate, for tax year 2019 is \$0.97 or more, the district may not adopt an M&O tax rate that exceeds its voter-approval tax rate for tax year 2019.

For the 2020 tax year, the voter-approval tax rate shall be calculated as provided in the preceding paragraph, except under unanimous vote of the governing body of a school district, the amount in (B)(ii) above may be increased to the rate of \$0.05. In setting its annual tax rate for any subsequent years, the governing body of a school district generally

cannot adopt a tax rate exceeding the district's voter-approval tax rate without approval by a majority of the voters voting at an election approving the higher rate. The voter-approval tax rate for a school district is the sum of (A) the product of the district's State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district's Enrichment Tax Rate for the preceding tax year, less the rate (if any) by which it must compress its Copper Pennies for the current year, or (ii) the rate of \$0.05, and (C) the district's I&S tax rate for the current tax (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage", "Enrichment Tax Rate", and compression of Copper Pennies).

The calculation of the "voter-approval tax rate" does not limit or impact the District's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the District's tax-supported debt obligations, including the Bonds.

The governing body of a district must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a district fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the district for the preceding tax year.

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 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 district if the 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 district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A 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.

The Tax Code as Applied to the District

Each Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective Appraisal District.

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

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

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

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

The District's taxes are collected by the respective Appraisal District.

The District does not allow split payments of taxes or discounts. Installments are allowed under provisions of the Texas Property Tax Code.

The District has entered into an Economic Development Agreement Authorized under Chapter 313, Texas Tax Code, as amended, limiting the taxable appraised value for maintenance and operation purposes for maintenance and operations, beginning tax year 2018 and extending through tax year 2042, with Buckthorn Wind Project, LLC.

The District does not grant an additional local exemption of up to 20% of the market value of residence homesteads.

The District has taken action to tax freeport property and goods-in-transit.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an additional penalty of up to 20% is assessed in order to defray attorney collection expenses.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District’s financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does

not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

During the 2019 legislative session, the Texas Legislature made numerous changes to the Finance System, including particularly those contained in House Bill 3 ("HB3"). In some instances, the provisions of HB 3 will require further interpretation by the District and TEA. The District is still in the process of (a) analyzing the provisions of HB 3 and (b) monitoring the on-going guidance provided by TEA. The information contained herein reflects the District's understanding of HB3 based on information available to the District as of the date of this Official Statement, which is subject to change.

The following language constitutes only a summary of the 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 district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not levy surplus M&O taxes for the purpose of paying debt service on bonds. A district is authorized to levy their M&O tax at a constitutionally-mandated and voter-approved rate of up to \$1.50 per \$100 of taxable value in the district. 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, districts may levy a tax sufficient to pay debt service on such bonds unlimited as to rate or amount. Because property values vary widely among school districts, the amount of local funding generated among school districts for the same tax rate is also subject to wide variation.

Prior to the 2019 Legislative Session, a district's maximum M&O tax rate for a given tax year was determined by multiplying that district's 2005 M&O tax rate levy by a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education. 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. 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 district, by up to \$0.17 above the compressed rate (for most districts, between \$1.04 and \$1.17 per \$100 of taxable value). District's received additional State funds in proportion to such taxing effort.

Local Funding For School Districts

The 86th Texas Legislature made several significant changes to the funding methodology for school districts. It orders a district's M&O tax rate into two distinct parts: the Tier One Tax Rate and the Enrichment Tax Rate, and applies a legislatively-appropriated State Compression Percentage (each term as described below) or a higher rate of compression, as appropriate.

State Compression Percentage. The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is necessary to receive the full amount of State aid. The State Compression Percentage is set at 93% per \$100 of taxable value for the 2019-2020 school year, effectively setting the fiscal year 2019-2020 Tier One Tax Rate for most school districts at \$0.93 cents. In the 2020-2021 school year, the State Compression Percentage is anticipated to decline, based on statewide average property value growth, to 91.65%. It will decline further in future years if statewide average property values grow at a rate that is greater than 2.5%.

Tier One Tax Rate. For school year 2019-2020, the Tier One Tax Rate is defined as the lesser of the State Compression Percentage multiplied by \$1.00 or the total number of cents levied by the district for the 2018-2019 school year for M&O (excluding tax rate increases in response to declared disasters as described below), multiplied by the State Compression Percentage. Beginning with the 2020-2021 school year, a district must reduce its compression percentage to a rate lower than the State Compression Percentage if the taxable value in the district has increased by more than 2.5% over the prior year.

Enrichment Tax Rate. The Enrichment Tax Rate is defined as any tax effort in excess of the Tier One Tax Rate and less than \$1.17. The Enrichment Tax Rate is divided into two components, commonly known as “Golden Pennies” and “Copper Pennies”. Golden Pennies refer to the first eight cents of taxing effort above the Tier One Tax Rate. Copper Pennies refer to any taxing effort above the sum of the Tier One Tax Rate and Golden Pennies, but less than or equal to the sum of (1) \$0.17, plus (2) the product of the State Compression Percentage, multiplied by \$1.00. For the 2019-2020 tax year, this maximum value for most districts is \$1.10.

Districts are entitled to a guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated) for each Golden Penny or Copper Penny levied in addition to the Tier One Tax Rate. However, in years for which the guaranteed yield per Copper Penny is increased, a district may be required to reduce its M&O tax rate for that school year if it levies Copper Pennies (see “Wealth Transfer Provisions – Tier Two Funding” below).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each district with a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being 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 per student is revised downward if a district’s Tier One Tax Rate does not meet or exceed a State-determined threshold (currently \$0.93 per \$100 of taxable value). This Basic Allotment is supplemented by additional State funds, allotted based upon the unique district characteristics and demographics of students in ADA, to make up most of a district’s basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program.

Tier One is then “enriched” with additional funds known as “Tier Two” of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of a district’s Enrichment Tax Rate, which is the M&O tax effort that exceeds the Tier One Tax Rate. The Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding 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 districts. In 2019, the 86th Texas Legislature appropriated funds in the amount of \$1,323,444,300 for the 2020-2021 State fiscal biennium 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 districts, with local M&O taxes representing the district’s local share. EDA and IFA allotments supplement a district’s local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2020-21 State fiscal biennium and debt service assistance on district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each district that is not subject to the wealth transfer provisions described below an opportunity to supplement Tier One at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

As described above, Tier One funding is based on an allotment per student known as the “Basic Allotment”. For the 2020-21 State fiscal biennium, the Basic Allotment for districts with an M&O tax rate of at least \$0.93 cents is \$6,160 for each student in ADA and is revised downward for districts with a lower M&O tax rate. The Basic Allotment is then supplemented for all districts by various weights to account for differences among 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 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 districts in the top 25% of enrollment growth relative to other districts), and (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of student who attain post-secondary education or workforce credential. The sum of a district’s Basic Allotment and all statutory adjustments, divided by \$6,160, is that district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of State and local funds per cent of tax effort) depending on the district's Enrichment Tax Rate. The first eight cents of tax effort that exceeds a district's Tier One Tax Rate (Golden Pennies) will 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 96th percentile of wealth per student in WADA, or (ii) the Basic Allotment multiplied by 0.016 per student in WADA per cent of tax effort. For the 2020-21 State fiscal biennium, the guaranteed yield will be \$98.56 per WADA per cent of tax effort above \$0.93 up to \$1.01 per \$100 taxable value.

The second level of Tier Two is generated by tax effort that exceeds the district's Tier One Tax Rate plus eight cents (Copper Pennies) and has a guaranteed yield per cent per WADA of the Basic Allotment multiplied by 0.008. For the 2020-2021 State fiscal biennium, the guaranteed yield will be \$49.28 per WADA per cent of tax effort above \$1.01, up to eleven cents of tax effort.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the IFA program and the EDA program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA 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 the new IFA awards are available, a 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 district may be awarded is limited to the lesser of (1) the actual debt service payments made by the 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 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. The 86th State Legislature did not appropriate any funds for new IFA awards for the 2020-2021 State fiscal biennium; 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. Until recently, the EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 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 districts would have been entitled to if the EDA Yield were \$35. The yield for the 2019-2020 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, and (ii) the 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 district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 86th Texas Legislature appropriated funds in the amount of \$100,000,000 for each of the 2019-2020 and 2020-2021 State fiscal years for NIFA allotments.

Wealth Transfer Provisions And Funding Equity

Some school districts in Texas have sufficient property wealth per student in WADA to generate their statutory level of funding through collections of local property taxes alone. Certain districts whose property tax base can generate local M&O revenues in excess of the State entitlement are subject to the wealth equalization provisions contained in Chapter 49, as amended, Texas Education Code ("Chapter 49"). For most Chapter 49 districts, wealth equalization entails a process known as "recapture", paying the portion of the district's local share in excess of the guaranteed yield to the State (for redistribution to other school districts) or otherwise expending M&O tax revenues for the benefit of students in districts that are not subject to Chapter 49.

In 2019, the 86th Texas Legislature adopted substantial changes to the wealth transfer provisions of the Texas Education Code. Whereas the recapture process had previously been based on the proportion of a district's

assessed property value per student in WADA, recapture is now measured by the “local revenue level” (being the local share of the relevant portion of the Foundation School Program) in excess of the entitlements appropriated by the Legislature each fiscal biennium. Therefore, 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.

Tax Rate and Funding Equity. The Texas Commissioner of Education (the “Commissioner”) may adjust a district's funding entitlement if the funding formulas used to determine the district's entitlement result in an unanticipated loss or gain for a 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. Further, current law include a mechanism designed to ensure that districts can have no greater than a 10% difference in maximum compressed tax rates for the 2020-2021 school year and beyond.

Additionally, the Commissioner may proportionally reduce the amount of funding a district receives under the Finance System and the ADA calculation if the 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 district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a district's attendance.

Furthermore, “property-wealthy” school districts which received additional State funds under the prior State funding regime 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 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.

Recapture. Similar to prior law, certain districts generating local revenue in excess of the statutorily guaranteed State and local funding levels (each a “Chapter 49 district”) must pay the surplus local revenue in excess of entitlement to the State for redistribution to other school districts or directly to other school districts with a local revenue level that does not generate local funds sufficient to meet the statutory level of funding. Chapter 49 districts must exercise certain options, described in more detail below, in order to reduce “their local revenue level in excess of entitlement”, as determined by formulas set forth in Section 48.257 of the Texas Education Code.

Tier One Funding. In the 2020-2021 State fiscal biennium, the guaranteed level of State and local funds varies for each component of a district's M&O tax rate. Generally, a district's Tier One Tax Rate (as the equivalent of the State Compression Percentage) is set at 93% or lower by appropriation, multiplied by \$1.00 per \$100 of property valuation (except for districts taxing at a rate of less than \$1.00 for the 2018-2019 school year). The Tier One Tax Rate for such districts for the 2019-2020 school year would be the State Compression Percentage applied to the number of cents levied by the district for the 2018-2019 school year.) Revenue from this tax rate, combined with any state aid in Tier One, generate the district's total Tier One entitlement. Revenue in excess of the local share of Tier One is returned to the State in the form of recapture.

Tier Two Funding. Under current law, the Golden Pennies of a district's Enrichment Tax Rate will 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 96th percentile of wealth per student in WADA, or (ii) 160% of the Basic Allotment per student in WADA at such district. The local revenue generated from a district's Golden Pennies are generally not subject to recapture; however, in years where an amount less than the guaranteed yield for Golden Pennies described in clauses (i) and (ii) is appropriated, a district must remit to the State any revenue generated from its Golden Pennies above the guaranteed yield appropriated in that year.

The Copper Pennies of a district's Enrichment Tax Rate generate a guaranteed yield equal the Basic Allotment for the 2020-2021 State fiscal biennium times 0.008. For a school year in which a district's guaranteed yield for its Copper Pennies per student in WADA exceeds the guaranteed yield per student in WADA for the preceding school year, a district would be required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per cent per student in WADA in school year 2019-2020 to \$49.28 per cent per student in WADA requires districts to compress their levy of Copper Pennies by a factor of 0.64834.

Wealth Transfer Options. Under Chapter 49, a district has six options to reduce its local revenue level so that it does not exceed the equalized wealth level: (1) a district may consolidate by agreement with one or more districts to form a

consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; (5) a district may execute an agreement to provide students of one or more other districts with career and technology education through a program designated as an area program for career and technology education; or (6) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 district's voters.

Furthermore, a 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 district fails to exercise a permitted option, the Commissioner must reduce the district's local revenue level to the level that would produce its guaranteed entitlement, by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph (see "AD VALOREM TAX PROCEDURES – Public Hearing and Maintenance and Operations Tax Rate Limitation" herein). The District believes that its maintenance and operations tax was most recently voted in the 1960's, pursuant to Texas Revised Civil Statutes Annotated Article 2784e-1, as amended ("Article 2784e-1"), at a rate not to exceed \$1.50 per \$100 of assessed valuation, but cannot find any record thereof because many of these records have been destroyed. Bond Counsel has advised the District that the Texas Attorney General will not prospectively approve the issuance of any limited maintenance tax indebtedness until the District can prove its actual maintenance and operations taxing authority or conducts a new maintenance and operations tax election under current Texas law. This administrative determination has not been litigated in a Texas Court.

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per \$100 of assessed valuation. Article 2784e-1 provides for a reduction of \$0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed \$1.20. Lastly, the Texas Attorney General in reviewing the

District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds, before application of all available State aid, will be approximately 4.92% of the District's current taxable assessed valuation of property. See "VALUATION AND DEBT DATA" in APPENDIX A herein.

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or (B) the sum of the Tier One Tax Rate and Enrichment Tax Rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts"). Furthermore, a school district cannot annually increase its tax rate in excess of the district's voter-approval tax rate without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE BONDS – Security for Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a 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 district voters 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. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduce the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, as amended, are not subject to the \$0.50 tax rate 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 \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as amended, as new debt, and are therefore subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate 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 district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS – Note I – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2018 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS – Note J – Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2018 as set forth in APPENDIX C hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "CHANGE IN NET ASSETS" in APPENDIX A herein. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the 2017-18 fiscal year, the District had a net pension liability of \$276,925.

See "III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS – Note T – Prior Period Adjustment" in the audited financial statements of the District for the year ended August 31, 2018 as set forth in APPENDIX C hereto for information related to the District's adoption of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and the related prior period adjustment.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 of Texas or the United States or their respective agencies and instrumentalities; (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 the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective

successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where

(a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas 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, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) 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 (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (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 of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "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 U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) 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 Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that 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 Texas 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 Board of Trustees.

Additional Provisions

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The District will furnish to the Underwriters 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 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 legal opinion of Bond Counsel with respect to the Bonds in substantially the form attached to this Official Statement as APPENDIX D. Bond Counsel was engaged by and only represents the District and will render an opinion to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law; and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code") and, as such, interest on the Bonds will not be subject to the alternative minimum tax to the owners thereof.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, has reviewed the information under the captions "PLAN OF FINANCING", "THE BONDS" (exclusive of the subcaptions "Payment Record," "Future Issues," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS", "LEGAL MATTERS", "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas, whose fee is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly 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 from the transaction.

Litigation

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

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Underwood Law Firm, P.C., Amarillo, Texas, 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 D - Form of Bond Counsel's Opinion".

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (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. 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. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds. Bond Counsel's opinion is not binding on the Internal Revenue Service. 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.

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds.

Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption," "—Collateral Tax Consequences" and "—Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

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

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, 20% of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to section 291 of the Code.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial

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

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

CONTINUING DISCLOSURE

The District is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the District who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000. This exception allows the District to not file annual updates to all financial and operating data that is included in this Official Statement. 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 annually provide certain updated financial information and operating data that is included in this Official Statement, that is customarily prepared by the District and that is publicly available, as well as timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the table reflecting "ESTIMATED OVERLAPPING DEBT STATEMENT", and in APPENDIX C attached hereto. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

The District will file with the MSRB 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 (10) 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 or 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 paying agent/registrars or change of name of the paying agent/registrars, if material; (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with 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, (a) 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 and (b) the District intends the words used in the immediately preceding paragraphs (15) and (16) to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information from MSRB

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

Limitations and Amendments

The District may from time to time 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, but only if (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such an 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 interests of the beneficial owners of the Bonds. The District may also repeal or amend the agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District so amends the agreement, the District shall include with any amended financial information or operating data next provided in accordance with this Article an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance with Prior Agreements

Prior to the issuance of the Bonds and during the past five years, the District was not a party to any continuing disclosure agreements.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A" to the District's Bonds. An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

Live Oak Public Finance, LLC (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Live Oak Public Finance, LLC, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$57,663.74. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2018, the date of the last financial statements of the District appearing in the Official Statement.

Forward Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

HUCKABAY INDEPENDENT SCHOOL DISTRICT

/s/ Shane Stegall
President, Board of Trustees

ATTEST:
/s/ Chad Hale
Vice President, Board of Trustees

APPENDIX A
SELECTED FINANCIAL INFORMATION
OF THE DISTRICT

VALUATION AND DEBT DATA

ASSESSED VALUATION⁽¹⁾

2018/19 Total Valuation	\$ 635,484,550
Less Exemptions and Deductions	(465,951,325)
2018/19 Net Taxable Valuation	<u>\$ 169,533,225</u>

⁽¹⁾ Source: Erath and Eastland County Appraisal Districts.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding	\$ 0
Plus: The Bonds	<u>7,940,000</u>
Total Unlimited Tax Bonds	<u>\$ 7,940,000</u>
Less: Interest & Sinking Fund Balance (As of August 31, 2018) ⁽¹⁾	<u>(0)</u>
Net General Obligation Debt	<u>\$ 7,940,000</u>

Ratio of Net G.O. Debt to Net Taxable Valuation⁽²⁾ 4.68%

2019 Population Estimate	1,463
Per Capita Net Taxable Valuation	\$155,881
Per Capita Net G.O. Debt	\$5,427

⁽¹⁾ Source: District's Audited Financial Statements and Municipal Advisory Council of Texas.

⁽²⁾ See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, "UNLIMITED TAX DEBT SERVICE REQUIREMENTS" in this APPENDIX A and the "Audited Financial Statements" in APPENDIX C for more information relative to the District's obligations.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation ⁽¹⁾⁽²⁾	Tax Rate	% Collections ⁽³⁾	
			Current	Total
2014/15	\$112,843,866	\$1.0040	98.08	99.40
2015/16	\$124,818,152	\$1.0040	97.71	99.39
2016/17	\$131,398,018	\$1.0040	97.77	100.66
2017/18	\$153,668,925	\$1.0040	97.82	98.63
2018/19	\$169,533,225	\$1.0040	98.42	100.31

⁽¹⁾ Sources: District's Audited Financial Statements; Erath and Eastland County Appraisal Districts.

⁽²⁾ The District's Net Taxable Valuation for Fiscal Year 2019/20 is \$286,130,489.

⁽³⁾ Source: District's Audited Financial Statements, the Municipal Advisory Council of Texas, and District Records. Excludes penalties and interest.

TAX RATE DISTRIBUTION⁽¹⁾

	2014/15	2015/16	2016/17	2017/18	2018/19
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$1.0400	\$1.0400
Debt Service	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Total Tax Rate	<u>\$1.0400</u>	<u>\$1.0400</u>	<u>\$1.0400</u>	<u>\$1.0400</u>	<u>\$1.0400</u>

⁽¹⁾ Sources: District's Audited Financial Statements; Erath and Eastland County Appraisal Districts; Municipal Advisory Council of Texas.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation⁽¹⁾	Bond Debt Outstanding⁽²⁾⁽³⁾	Ratio Debt to A.V.
2014/15	\$112,843,866	\$0	0.00%
2015/16	\$124,818,152	\$0	0.00%
2016/17	\$131,398,018	\$0	0.00%
2017/18	\$153,668,925	\$0	0.00%
2018/19	\$169,533,225	\$7,940,000	4.68%

⁽¹⁾ The District's Net Taxable Valuation for Fiscal Year 2019/20 is \$286,130,489.

⁽²⁾ At fiscal year-end.

⁽³⁾ Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Body	As Of	Amount	Percent Overlapping	Amount Overlapping
Erath County	5/31/2018	\$2,797,000	7.48%	\$209,216
Eastland County	5/31/2018	\$0	0.98%	\$0
Total Overlapping Debt				\$0
Huckabay Independent School District ⁽¹⁾	9/17/2019	\$7,940,000	100.00%	\$7,940,000
Total Direct & Overlapping Debt ⁽¹⁾				\$8,149,216
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation			4.81%	
Per Capita Direct & Overlapping Debt			\$5,568	

⁽¹⁾ The District's Net Taxable Valuation for Fiscal Year 2019/20 is \$286,130,489.

⁽²⁾ Includes the Bonds; preliminary, subject to change.

Source: Municipal Advisory Council of Texas.

CURRENT INVESTMENTS*

As of July 31, 2019, the District's investable funds amounted to \$1,476,028.53. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Cash & Cash Equivalents	29.82%	\$1,467,028.53	\$1,467,028.53
TexPool	10.47%	515,119.76	515,119.76
First Financial Bank Portfolio Account	59.71%	2,716,425.56	2,936,911.80
Total Investments	100.00%	\$4,698,573.85	\$4,919,060.09

* Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LEASES

The District obtained a long-term note payable in August, 2016 to finance the purchase of a new school bus. The amount financed was for \$47,873 payable in annual installments of approximately \$10,559 at an interest rate of 4.34% with final maturity in February, 2021. Future installment payments are as follows:

Year Ending August 31,	Amount
2019	\$10,558
2020	\$10,558
2021	\$10,559

TOP TEN TAXPAYERS^{*(1)(2)}

Name of Taxpayer	Type of Business	Taxable Value (\$)	% of Net Valuation ⁽²⁾
Buckthorn Wind ⁽²⁾	Windmills	121,709,320	43.27
Permian Express Partners	Pipeline Company	11,926,070	4.24
Atmos Energy/Mid Texline	Gas Distribution System	10,932,840	3.89
Greystone Sporting Properties LP	Game Ranch & Sport Shooting	3,342,460	1.19
West Texas Gulf Pipeline Co.	Pipeline Company	2,389,120	0.85
Downunder Horsemanship Land & Cattle LLC	Ranch & Horsemanship Business	2,238,530	0.80
Mewhinney Michael C. & Linda	Ranch	1,737,150	0.62
Caylor Kyle W. & Susan R.	Ranch	1,261,060	0.45
Squyres William S. & Karen F.	Ranch & Apartments	1,258,800	0.45
Bray Bryan Kenneth Jr.	Ranch	1,213,340	0.45
Total		\$157,376,890	56.17%

* The District's maintenance and operations ("M&O") taxable value is decreased by the Chapter 313, Texas Tax Code, as amended, value limitation agreement with Buckthorn Wind ("Buckthorn"). The limitation applies only to the M&O taxable property value. The taxable value for interest and sinking fund ("I&S") purposes is not subject to the limitation.

⁽¹⁾ Source: Erath and Eastland County Appraisal Districts.

⁽²⁾ As shown in the table above, the top taxpayer in the District currently accounts for over 43% of the District's tax base (based upon a taxable value of \$281,291,545 which is the I&S Chapter 313 Value Limitation), thereby creating a concentration risk for the District. Any adverse development related to Buckthorn, affecting its ability to continue to conduct business at its location within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. The District also previously entered into a multi-year economic development agreement with Buckthorn limiting the taxable appraised value thereof. See "AD VALOREM TAX PROCEDURES – The Tax Code as Applied to the District." In addition, the valuation of windmills and wind farms within the State, as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; private power generation facilities are also subject to transfer and sole ownership by other entities, including to local governments whose property is exempt from ad valorem taxation. Accordingly, the District makes no representation regarding the continued valuation of such property or the generation of future tax revenues therefrom.

While the District's taxable value for those properties within the ranching industry, as indicated above, aggregate to substantial valuation, ad valorem taxation of agricultural land is based upon production as opposed to its appraised valuation. The properties categorized within the ranching industry are likely receiving agricultural exemptions, therefore causing the District to receive limited tax revenue therefrom relative to their appraisal values.

If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Default and Remedies" and "AD VALOREM TAXATION - The Tax Code as Applied to the District" herein.

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UNLIMITED TAX DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Current Outstanding Debt Service	Plus: The Bonds			New Total Debt Service Requirements
		Principal	Interest	Total	Total
2020	\$0.00	\$375,000.00	\$292,284.44	\$625,106.67	\$667,284.44
2021		290,000.00	313,300.00	548,550.00	603,300.00
2022		285,000.00	301,700.00	535,900.00	586,700.00
2023		275,000.00	290,300.00	523,400.00	565,300.00
2024		270,000.00	279,300.00	511,050.00	549,300.00
2025		270,000.00	265,800.00	498,850.00	535,800.00
2026		265,000.00	252,300.00	491,800.00	517,300.00
2027		265,000.00	239,050.00	479,750.00	504,050.00
2028		270,000.00	225,800.00	472,850.00	495,800.00
2029		265,000.00	215,000.00	468,650.00	480,000.00
2030		270,000.00	204,400.00	464,250.00	474,400.00
2031		270,000.00	193,600.00	459,650.00	463,600.00
2032		270,000.00	182,800.00	452,300.00	452,800.00
2033		180,000.00	172,000.00	449,950.00	352,000.00
2034		190,000.00	164,800.00	447,450.00	354,800.00
2035		195,000.00	157,200.00	444,800.00	352,200.00
2036		205,000.00	149,400.00	439,400.00	354,400.00
2037		215,000.00	141,200.00	438,800.00	356,200.00
2038		220,000.00	132,600.00	432,800.00	352,600.00
2039		230,000.00	123,800.00	431,600.00	353,800.00
2040		240,000.00	114,600.00	425,000.00	354,600.00
2041		250,000.00	105,000.00	423,200.00	355,000.00
2042		260,000.00	95,000.00	421,000.00	355,000.00
2043		270,000.00	84,600.00	418,400.00	354,600.00
2044		280,000.00	73,800.00	420,400.00	353,800.00
2045		290,000.00	62,600.00	376,800.00	352,600.00
2046		305,000.00	51,000.00	374,400.00	356,000.00
2047		310,000.00	38,800.00	376,600.00	348,800.00
2048		320,000.00	26,400.00	373,200.00	346,400.00
2049		340,000.00	13,600.00	374,400.00	353,600.00
		\$0.00	\$7,940,000.00	\$4,962,034.44	\$12,902,034.44

Estimated Average Annual Debt Service Requirement	\$430,068
Estimated Maximum Debt Service Requirement	\$667,284

AUTHORIZED BUT UNISSUED BONDS

After the issuance of the Bonds, the District does not anticipate any remaining authorized but unissued unlimited ad valorem tax bonds from any bond election; however, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES⁽¹⁾

	Fiscal Year Ending August 31				
	2018	2017	2016	2015	2014
Revenues:					
Local and Intermediate Sources	\$1,570,518	\$1,538,185	\$1,373,562	\$1,276,352	\$1,407,928
State Sources	\$646,623	\$581,534	\$651,525	\$451,746	\$250,324
Federal Sources & Other	\$24,520	\$-	\$-	\$-	\$-
Total Revenues	\$2,241,661	\$2,119,719	\$2,025,087	\$1,728,098	\$1,658,252
Expenditures:					
Instruction	\$1,131,405	\$1,088,209	\$1,016,309	\$917,217	\$864,891
Instructional Resources & Media Services	\$3,670	\$1,980	\$2,838	\$2,127	\$2,370
Curriculum & Staff Development	\$18,641	\$21,788	\$12,465	\$11,380	\$11,571
School Leadership	\$73,146	\$81,802	\$60,802	\$48,015	\$41,806
Guidance, Counseling & Evaluation Services	\$38,915	\$46,354	\$45,057	\$44,206	\$41,401
Health Services	\$12,316	\$6,157	\$10,236	\$7,727	\$7,776
Student Transportation	\$35,415	\$39,149	\$125,032	\$41,738	\$38,331
Food Services	\$2,399	\$2,507	\$-	\$-	\$-
Extracurricular Activities	\$79,653	\$64,983	\$71,492	\$66,175	\$59,203
General Administration	\$217,052	\$250,869	\$220,357	\$187,215	\$236,077
Facilities Maintenance & Operations	\$242,573	\$290,324	\$187,834	\$249,189	\$197,194
Security and Monitoring Services	\$8,675	\$495	\$1,488	\$480	\$650
Data Processing Services	\$82,691	\$62,911	\$83,210	\$77,745	\$73,010
Debt Service					
Principal on Long Term Debt	\$9,014	\$9,577	\$-	\$-	\$-
Interest on Long Term Debt	\$1,545	\$982	\$-	\$-	\$-
Intergovernmental	\$-	\$-	\$-	\$-	\$-
Facilities Acquisition and Construction	\$212,065				
Payments to Fiscal Agents/SSA	\$15,044	\$9,135	\$10,519	\$6,790	\$6,467
Member Districts of SSA					
Other Intergovernmental Charges	\$38,323	\$38,010	\$35,828	\$34,822	\$32,682
Total Expenditures	\$2,223,082	\$2,015,232	\$1,883,467	\$1,694,826	\$1,613,429
Excess (Deficiency) of Revenues over Expenditures	\$18,579	\$104,487	\$141,620	\$33,272	\$44,823
Other Financing Sources (Uses):					
Sale of Real and Personal Property	\$-	\$-	\$-	\$-	\$-
Non-Current Loans	\$-	\$-	\$47,873	\$-	\$-
Transfers Out (Use)	\$(8,063)	\$(63,812)	\$(5,282)	\$(7,301)	\$-
Net Change in Fund Balance	\$10,516	\$40,675	\$184,211	\$29,370	\$44,823
Fund Balance – Beginning (Sept 1)	\$1,328,425	\$1,287,750	\$1,103,539	\$1,074,169	\$1,029,346
Fund Balance – Ending (Aug 31)⁽¹⁾	<u>\$1,338,941</u>	<u>\$1,328,425</u>	<u>\$1,287,750</u>	<u>\$1,103,539</u>	<u>\$1,074,169</u>

⁽¹⁾ The District's estimated anticipated General Fund balance as of August 31, 2019 is \$1,585,440.

CHANGE IN NET ASSETS⁽¹⁾

	Fiscal Year Ending August 31				
	2018	2017	2016	2015	2014
ASSETS:					
Cash & Cash Equivalents	\$1,309,328	\$1,326,232	\$1,292,736	\$135,293	\$114,745
Investments - Current	\$-	\$-	\$-	\$1,208,410	\$1,310,014
Property Taxes – Delinquent	\$76,228	\$63,116	\$74,418	\$54,318	\$44,106
Allowance for Uncollectible Taxes	\$(28,067)	\$(24,958)	\$(25,098)	\$(29,012)	\$(26,861)
Receivables from Other Governments	\$120,196	\$93,475	\$120,377	\$20,998	\$47,108
Prepayments	\$5,485	\$-	\$-	\$-	\$-
Capital Assets	\$1,583,398	\$1,431,173	\$1,343,227	\$1,347,429	\$1,389,538
TOTAL ASSETS:	\$3,066,568	\$2,889,038	\$2,805,660	\$2,737,436	\$2,878,650
LIABILITIES:					
Accounts Payable	\$16,227	\$11,049	\$-	\$1,149	\$40,896
Payroll Deductions & Withholdings Payable	\$(33)	\$11,781	\$-	\$-	\$-
Accrued Wages Payable	\$76,647	\$65,567	\$97,092	\$67,622	\$50,946
Unearned Revenues	\$-	\$-	\$25,000	\$189,769	\$303,501
Accrued Expenditures	\$1,618	\$1,397	\$1,882	\$1,313	\$1,101
Noncurrent Liabilities					
Due Within One Year	\$9,377	\$9,014	\$9,577		
Due in More Than One Year	\$19,905	\$29,282	\$38,296		
Net Pension Liability (District's Share)	\$276,925	\$312,096	\$270,382		
Net OPEB Liability (District's Share)	\$603,152	\$-	\$-	\$137,564	
TOTAL LIABILITIES:	\$1,003,818	\$440,186	\$442,229	\$397,417	\$396,444
DEFERRED INFLOWS:					
Deferred Inflow Related to TRS	\$294,654	\$17,994	\$20,122	\$42,081	
TOTAL DEFERRED INFLOWS	\$294,654	\$17,994	\$20,122	\$42,081	\$-
FUND BALANCES:					
Nonspendable Fund Balance:					
Prepaid Items	\$-	\$-	\$-	\$-	\$-
Restricted Fund Balance:					
Federal or State Funds Grant Restriction	\$-	\$-	\$-	\$-	\$56
Retirement of Long-Term Debt	\$-	\$-	\$-	\$-	\$-
Other Restricted Fund Balance	\$-	\$-	\$-	\$-	\$-
Net Investment in Capital assets	\$1,554,116	\$1,392,877	\$1,295,354	\$1,347,429	\$1,389,538
Committed Fund Balance:					
Construction	\$443,871	\$443,871	\$623,871	\$623,871	\$623,871
& Capital Expenditures for Equipment	\$78,500	\$78,500	\$138,500	\$138,500	\$138,500
Unassigned Fund Balance	\$(181,240)	\$658,894	\$413,338	\$221,586	\$330,241
Total Fund Balances	\$1,895,247	\$2,574,142	\$2,471,063	\$2,331,656⁽²⁾	\$2,482,206
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES & FUND BALANCES	\$3,320,870⁽³⁾	\$3,175,606⁽⁴⁾	\$3,061,168⁽⁵⁾	\$2,804,872⁽⁶⁾	\$2,482,206

⁽¹⁾ The foregoing information represents government-wide financial information provided in accordance with GASB 34.

⁽²⁾ During the District's 2015 fiscal year, the District adopted GASB Statement No. 68, Accounting and Reporting for Pensions. Adoption of GASB 68, as amended by GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment was \$(155,861). Prior period adjustments for fiscal year 2016 for the purpose of restating prior years' ending fund balances; adjustment did not impact District finances or operating position.

⁽³⁾ Includes total Deferred Outflows of Resources of \$127,151 related to TRS OPEB and TRS Pension.

⁽⁴⁾ Includes total Deferred Outflows of Resources of \$143,284 related to TRS OPEB and TRS Pension.

⁽⁵⁾ Includes total Deferred Outflows of Resources of \$127,754 related to TRS OPEB and TRS Pension.

⁽⁶⁾ Includes total Deferred Outflows of Resources of \$33,718 related to TRS OPEB and TRS Pension.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

THE DISTRICT

General and Economic Information

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

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2008	192
2009	192
2010	191
2011	188
2012	196
2013	158
2014	166
2015	189
2016	206
2017	208
2018	237
2019	236*

*Projected

District Staff

Teachers	18
Auxiliary Personnel	2
Teachers' Aides & Secretaries	4
Administrators	3
Other (Counselors, RNs, Librarians)	7

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Years of Addition/Renovation</u>
Elementary, Jr. & Sr. High School	PK-12	236	320	1940	1954,1965,1983,1994

Unemployment Rates

	<u>April 2017</u>	<u>April 2018</u>	<u>April 2019</u>
Erath County	3.0%	2.7%	2.4%
State of Texas	4.5%	4.0%	3.7%
United States	4.4%	3.9%	3.6%

Source: United States Department of Labor.

APPENDIX C

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Huckabay Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2018.

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2018

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Certificate of Board	1	
<u>Independent Auditor's Report:</u>		
Unmodified Opinion on Basic Financial Statements Accompanied by Required Supplementary Information and Other Supplementary Information	2	
Management's Discussion and Analysis	4	
<u>Basic Financial Statements:</u>		
Government-Wide Financial Statements:		
Statement of Net Position	10	A-1
Statement of Activities	11	B-1
Governmental Fund Financial Statements:		
Balance Sheet-Governmental Funds	12	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds	14	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15	C-4
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position-Fiduciary Funds	16	E-1
Notes to the Financial Statements	17	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule-General Fund	41	G-1
Schedule of District's Proportionate Share of the Net Pension Liability (TRS)	42	G-2
Schedule of District Contributions to TRS	43	G-3
Schedule of District's Proportionate Share of the Net OPEB Liability (TRS)	44	G-4
Schedule of District Contributions to TRS	45	G-5
Notes to Required Supplementary Information	46	
<u>Combining Schedules:</u>		
Combining Balance Sheet-Nonmajor Governmental Funds	48	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds	50	H-2
Statement of Changes in Assets and Liabilities - Agency Fund	52	H-9
<u>Required TEA Schedules:</u>		
Schedule of Delinquent Taxes Receivable	54	J-1
Budgetary Comparison Schedule-Child Nutrition Program	56	J-4
<u>Overall Compliance and Internal Controls Section:</u>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58	
Summary Schedule of Prior Audit Findings	59	
Schedule of Findings and Questioned Costs	60	
Corrective Action Plan	62	

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CERTIFICATE OF BOARD

Huckabay Independent School District
Name of School District

Erath
County

072-908
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and ___approved
- ___disapproved for the year ended August 31, 2018, at a meeting of the board of school trustees of such school district on the
____ day of _____, 2018.

Signature of Board Secretary

Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Huckabay Independent School District
200 County Road 421
Stephenville, Texas 76401

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Huckabay Independent School District (the "District") as of and for the year ended August 31, 2018, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Huckabay Independent School District as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note T to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS), Schedule of District Contributions to TRS, Schedule of District's Proportionate Share of the Net OPEB Liability (TRS) and Schedule of District OPEB Contributions to TRS as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required 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. In my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 18, 2018, on my consideration of the District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

October 18, 2018



Huckabay Independent School District

www.hisd.us

200 COUNTY ROAD 421 • STEPHENVILLE, TX 76401-6429

Troy Roberts
Superintendent
254-968-8476

Wes Corzine
Principal
254-968-5274

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Huckabay Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August, 31, 2018. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two different types of funds - governmental and proprietary - use different accounting approaches.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 16. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities decreased from \$2,574,142 to \$1,895,247. Implementation of new accounting pronouncement GASB Statement No. 75 related to accruals of other post-employment benefit liabilities (OPEB) was the primary reason behind the significant decrease in net position for the year. The net effect of GASB 75 on current year net position was approximately (\$0.84) million. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$658,894 to (\$181,240) due to the effects of GASB 75. Current and other assets increased by \$25,305 due to state receivables offset by reductions in cash. Capital assets increased by \$152,225 due to asset additions in excess of current year depreciation expense. Long-term liabilities increased by \$558,967 due to the effects of GASB 75. Other liabilities increased by \$4,665 related to payroll accruals. Deferred resource outflows related to TRS net pension and OPEB liabilities decreased by \$16,133 and deferred resource inflows related to TRS net pension and OPEB liabilities increased by \$276,660.

The District's total revenues were \$250,931 less than last year. Operating grants and contributions were lower by \$391,000 due primarily to the effects of negative on-behalf revenue related to GASB 75. Increases in property tax revenues of \$75,000 were due to the effects of increased property valuations by over 6%. State aid revenues increased by \$60,000 due to increases in student enrollment.

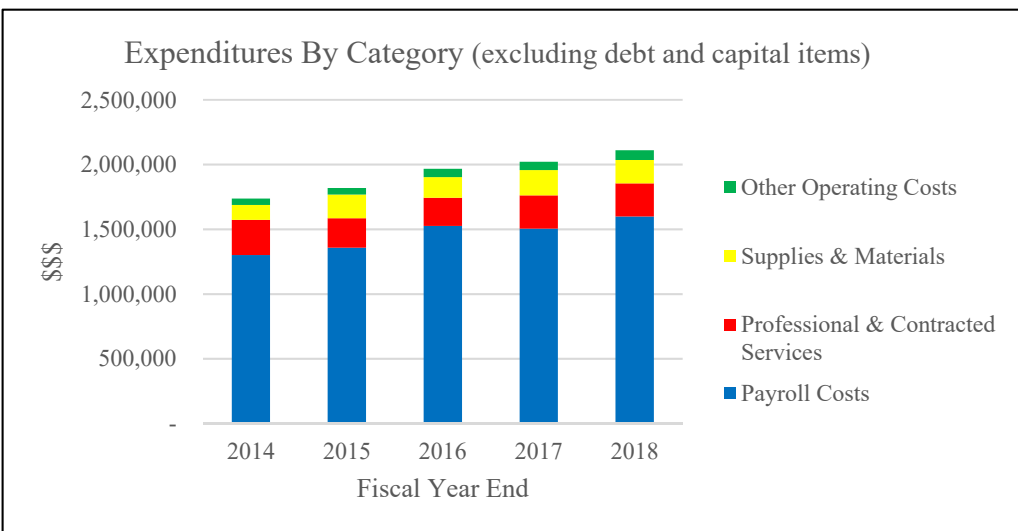
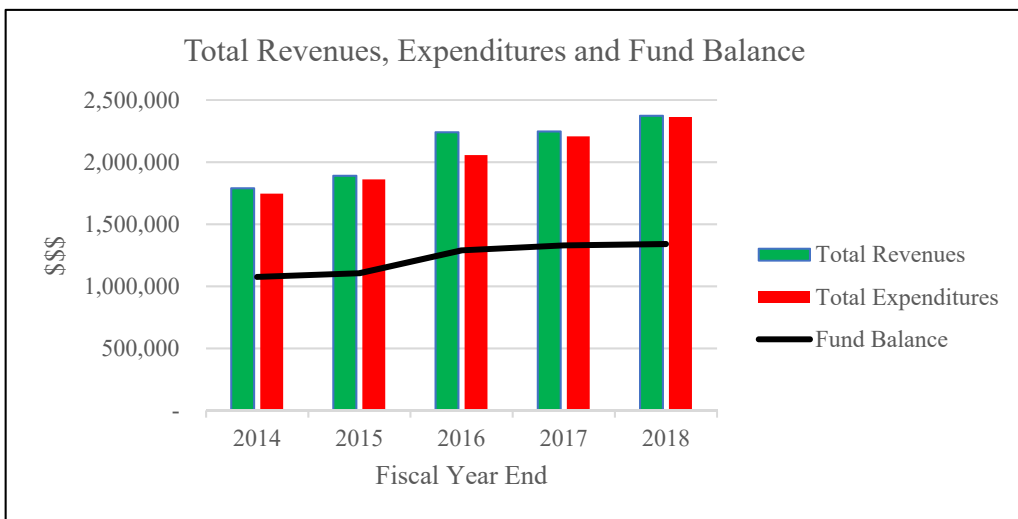
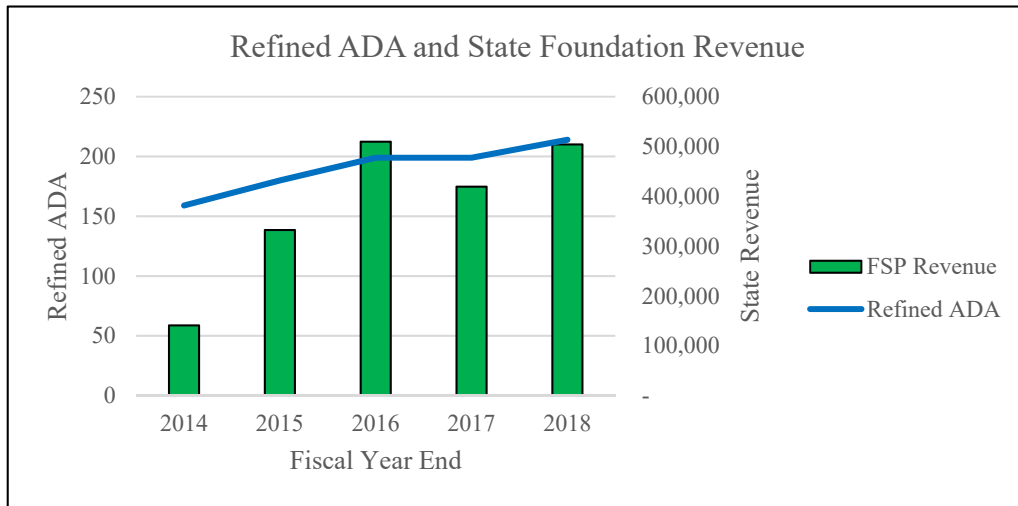
Changes in expenses for the year are not comparable to prior year due to the overall effects of GASB 75 on current year expenses. Current year on-behalf activity relative to last year was negative by approximately \$363,000. Therefore, nearly every functional category was affected by this significant net decrease in expenses.

Excluding the effects on expenses of GASB 75, expenses increased by approximately \$89,000. Nearly all of the net expense increases were related to payroll costs. The affected functional categories increased as follows: instructional expenses by approximately \$72,000, extracurricular activities expenses by \$5,000, general administration by \$10,000 and facilities maintenance and operations and data processing by \$27,000. Decreases in payroll costs were in instructional and school leadership, student support services and child nutrition by \$10,000, \$6,000 and \$4,000, respectively.

Table I Net Position			
	Governmental Activities 2018	Governmental Activities 2017	Variance Increase/ (Decrease)
Current and other assets	\$ 1,483,170	\$ 1,457,865	\$ 25,305
Capital assets	1,583,398	1,431,173	152,225
Deferred resource outflows for TRS	127,151	143,284	(16,133)
Total assets and deferred resource outflows	3,193,719	3,032,322	161,397
Long-term liabilities	909,359	350,392	558,967
Other liabilities	94,459	89,794	4,665
Deferred resource inflows for TRS	294,654	17,994	276,660
Total liabilities and deferred resource inflows	1,298,472	458,180	840,292
Net position:			
Net investment in capital assets	1,554,116	1,392,877	161,239
Restricted for capital projects	443,871	443,871	0
Restricted for other purposes	78,500	78,500	0
Unrestricted	(181,240)	658,894	(840,134)
Total net position	\$ 1,895,247	\$ 2,574,142	\$ (678,895)

Table II Changes in Net Position			
	Governmental Activities 2018	Governmental Activities 2017	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 34,783	\$ 34,587	\$ 196
Operating grants and contributions	(105,035)	286,285	(391,320)
General Revenues:			
Property taxes	1,503,511	1,428,476	75,035
State aid - formula grants	547,961	487,741	60,220
Other	20,671	15,733	4,938
Total Revenues	2,001,891	2,252,822	(250,931)
Expenses:			
Instruction, curriculum and media services	857,858	1,207,316	349,458
Instructional and school leadership	50,868	86,518	35,650
Student support services	90,450	116,158	25,708
Child nutrition	64,630	89,473	24,843
Extracurricular activities	70,762	67,919	(2,843)
General administration	164,919	263,423	98,504
Plant maintenance, security & data processing	268,764	270,809	2,045
Debt service	1,545	982	(563)
Payments related to shared service arrangements	15,044	9,135	(5,909)
Other intergovernmental charges	38,323	38,010	(313)
Total Expenses	1,623,163	2,149,743	526,580
Increase (Decrease) in Net Position	378,728	103,079	275,649
Net Position - beginning of year	2,574,142	2,471,063	103,079
Prior period adjustment	(1,057,623)	0	(1,057,623)
Net Position - end of year	\$ 1,895,247	\$ 2,574,142	\$ (678,895)

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$1,340,550, an increase of \$10,637 in the District's Governmental Funds from last year's fund balance of \$1,329,913. The primary reasons for the net decrease are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget numerous times during the year. The major amendments were to instruction for \$22,000 related to technology supplies and security monitoring services for \$11,200 related to security supplies.

The District's General Fund balance of \$1,338,941 reported on pages 14 and 41 differs from the General Fund's budgetary fund balance of \$1,399,666 reported in the budgetary comparison schedule on page 41 primarily due to expenditures being more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the District had \$2,900,584 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

Asset additions:

Building improvements	\$ 12,455
Real estate	212,605
Technology improvements	8,000
Infrastructure improvements	8,133
Total asset additions	<u><u>\$ 241,193</u></u>

Debt

None.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's overall fund balance should remain strong with a slight deficit budget adopted for 2018-19. The tax rate was set at \$1.04 for maintenance and operations. General fund revenues were budgeted at \$2.13 million and expenditures were budgeted at approximately \$2.15 million. Therefore, the District expects that its fund balance approximate \$1.32 million at August 31, 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Huckabay Independent School District, 200 County Road 421, Stephenville, Texas 76401.

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BASIC FINANCIAL STATEMENTS

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data	Primary Government
Control	Governmental
Codes	Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,309,328
1220 Property Taxes Receivable (Delinquent)	76,228
1230 Allowance for Uncollectible Taxes	(28,067)
1240 Due from Other Governments	120,196
1410 Prepayments	5,485
Capital Assets:	
1510 Land	253,555
1520 Buildings, Net	1,073,956
1530 Furniture and Equipment, Net	94,850
1550 Leased Property Under Capital Leases, Net	62,072
1590 Infrastructure, Net	98,965
1000 Total Assets	3,066,568
DEFERRED OUTFLOWS OF RESOURCES	
1703 Deferred Outflow Related to TRS OPEB	10,604
1705 Deferred Outflow Related to TRS Pension	116,547
1700 Total Deferred Outflows of Resources	127,151
LIABILITIES	
2110 Accounts Payable	16,227
2150 Payroll Deductions & Withholdings	(33)
2160 Accrued Wages Payable	76,647
2200 Accrued Expenses	1,618
Noncurrent Liabilities	
2501 Due Within One Year	9,377
2502 Due in More Than One Year	19,905
2540 Net Pension Liability (District's Share)	276,925
2545 Net OPEB Liability (District's Share)	603,152
2000 Total Liabilities	1,003,818
DEFERRED INFLOWS OF RESOURCES	
2603 Deferred Inflow Related to TRS OPEB	252,299
2605 Deferred Inflow Related to TRS Pension	42,355
2600 Total Deferred Inflows of Resources	294,654
NET POSITION	
3200 Net Investment in Capital Assets	1,554,116
3860 Restricted for Capital Projects	443,871
3890 Restricted for Other Purposes	78,500
3900 Unrestricted	(181,240)
3000 Total Net Position	\$ 1,895,247

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 839,589	\$ -	\$ (52,641)	\$ (892,230)
12 Instructional Resources and Media Services	2,965	-	171	(2,794)
13 Curriculum and Staff Development	15,304	-	(214)	(15,518)
23 School Leadership	50,868	-	(13,067)	(63,935)
31 Guidance, Counseling and Evaluation Services	25,904	-	(6,550)	(32,454)
33 Health Services	12,316	-	-	(12,316)
34 Student (Pupil) Transportation	52,230	-	(1,667)	(53,897)
35 Food Services	64,630	28,323	32,921	(3,386)
36 Extracurricular Activities	70,762	6,460	(6,341)	(70,643)
41 General Administration	164,919	-	(33,074)	(197,993)
51 Facilities Maintenance and Operations	201,864	-	(10,924)	(212,788)
52 Security and Monitoring Services	8,675	-	-	(8,675)
53 Data Processing Services	58,225	-	(13,649)	(71,874)
72 Debt Service - Interest on Long Term Debt	1,545	-	-	(1,545)
93 Payments related to Shared Services Arrangements	15,044	-	-	(15,044)
99 Other Intergovernmental Charges	38,323	-	-	(38,323)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 1,623,163	\$ 34,783	\$ (105,035)	(1,693,415)

Data Control Codes		General Revenues:	
		Taxes:	
MT		Property Taxes, Levied for General Purposes	1,503,511
SF		State Aid - Formula Grants	547,961
IE		Investment Earnings	20,671
TR		Total General Revenues	2,072,143
CN		Change in Net Position	378,728
NB		Net Position - Beginning	2,574,142
PA		Prior Period Adjustment	(1,057,623)
NE		Net Position--Ending	\$ 1,895,247

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,304,512	\$ 4,816	\$ 1,309,328
1220 Property Taxes - Delinquent	76,228	-	76,228
1230 Allowance for Uncollectible Taxes (Credit)	(28,067)	-	(28,067)
1240 Receivables from Other Governments	107,043	13,153	120,196
1260 Due from Other Funds	12,270	-	12,270
1410 Prepayments	5,485	-	5,485
1000 Total Assets	<u>\$ 1,477,471</u>	<u>\$ 17,969</u>	<u>\$ 1,495,440</u>
LIABILITIES			
2110 Accounts Payable	\$ 13,466	\$ 2,761	\$ 16,227
2150 Payroll Deductions and Withholdings Payable	(33)	-	(33)
2160 Accrued Wages Payable	75,345	1,302	76,647
2170 Due to Other Funds	-	12,270	12,270
2200 Accrued Expenditures	1,591	27	1,618
2000 Total Liabilities	<u>90,369</u>	<u>16,360</u>	<u>106,729</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	48,161	-	48,161
2600 Total Deferred Inflows of Resources	<u>48,161</u>	<u>-</u>	<u>48,161</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	5,485	-	5,485
Committed Fund Balance:			
3510 Construction	443,871	-	443,871
3530 Capital Expenditures for Equipment	78,500	-	78,500
3600 Unassigned Fund Balance	811,085	1,609	812,694
3000 Total Fund Balances	<u>1,338,941</u>	<u>1,609</u>	<u>1,340,550</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,477,471</u>	<u>\$ 17,969</u>	<u>\$ 1,495,440</u>

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 1,340,550
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,659,391 and the accumulated depreciation was (\$1,228,218). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	1,392,877
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position.	250,207
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$116,547, a deferred resource inflow in the amount of \$42,355 and a net pension liability in the amount of \$276,925.	(1,047,580)
Also included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$10,604, a deferred resource inflow in the amount of \$252,299 and a net OPEB liability in the amount of \$603,152. The net effect of items related to GASB 68 and GASB 75 for pension and OPEB liabilities was a decrease in net position.	
4 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(88,968)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue. The net effect of these reclassifications and recognitions is to increase net position.	48,161
19 Net Position of Governmental Activities	<u>\$ 1,895,247</u>

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,570,518	\$ 28,444	\$ 1,598,962
5800 State Program Revenues	646,623	11,386	658,009
5900 Federal Program Revenues	24,520	91,542	116,062
5020 Total Revenues	2,241,661	131,372	2,373,033
EXPENDITURES:			
Current:			
0011 Instruction	1,131,405	58,439	1,189,844
0012 Instructional Resources and Media Services	3,670	171	3,841
0013 Curriculum and Instructional Staff Development	18,641	4,142	22,783
0023 School Leadership	73,146	-	73,146
0031 Guidance, Counseling and Evaluation Services	38,915	-	38,915
0033 Health Services	12,316	-	12,316
0034 Student (Pupil) Transportation	35,415	-	35,415
0035 Food Services	2,399	76,562	78,961
0036 Extracurricular Activities	79,653	-	79,653
0041 General Administration	217,052	-	217,052
0051 Facilities Maintenance and Operations	242,573	-	242,573
0052 Security and Monitoring Services	8,675	-	8,675
0053 Data Processing Services	82,691	-	82,691
Debt Service:			
0071 Principal on Long Term Debt	9,014	-	9,014
0072 Interest on Long Term Debt	1,545	-	1,545
Capital Outlay:			
0081 Facilities Acquisition and Construction	212,605	-	212,605
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	15,044	-	15,044
0099 Other Intergovernmental Charges	38,323	-	38,323
6030 Total Expenditures	2,223,082	139,314	2,362,396
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	18,579	(7,942)	10,637
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	8,063	8,063
8911 Transfers Out (Use)	(8,063)	-	(8,063)
7080 Total Other Financing Sources (Uses)	(8,063)	8,063	-
1200 Net Change in Fund Balances	10,516	121	10,637
0100 Fund Balance - September 1 (Beginning)	1,328,425	1,488	1,329,913
3000 Fund Balance - August 31 (Ending)	\$ 1,338,941	\$ 1,609	\$ 1,340,550

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 10,637
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position.	250,207
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(88,968)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to increase net position.	10,003
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$28,062. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$28,180. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$15,809.	196,849
Similarly, GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$10,511. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$7,211. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by (\$209,476). The net effect for both GASB 68 and GASB 75 related to pension and OPEB expenses is an increase in the change in net position.	
Change in Net Position of Governmental Activities	<u>\$ 378,728</u>

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 57,067
Total Assets	<u>\$ 57,067</u>
LIABILITIES	
Due to Student Groups	\$ 57,067
Total Liabilities	<u>\$ 57,067</u>

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

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

Governmental Funds:

2. **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.

Fiduciary Funds:

3. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Huckabay Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset:</u>	<u>Years</u>
Buildings and improvements	40
Infrastructure	20
Vehicles	10
Equipment	7
Technology equipment	5

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 116,547
Deferred charges related to TRS OPEB	\$ 10,604

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 42,355
Deferred charges related to TRS OPEB	\$ 252,299

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other reports are in Exhibit J4.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories from the General Fund that exceeded its final amended budget by more than \$2,500:

Functional Category	Amount Over Budget	Explanation
11 - Instruction	\$ 39,839	The District failed to account for ending accrued payroll which was expended in August, 2018 but not budgeted.
51 - Facilities maintenance and operations	\$ 8,282	The District failed to amend its budget in August, 2018 for monthly expenditures and ending accrued accounts payable.
53 - Data processing services	\$ 28,632	The District failed to budget for ending accrued payroll and TRS onbehalf activity which was expended in August, 2018 but not budgeted.
81 - Facilities acquisition and construction	\$ 212,605	The Board of Trustees approved the purchase of real estate acquired in August, 2018. But, the District failed to make a budget amendment for the purchase.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2018, the following are the District's cash and cash equivalents (including it's student activity fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash:						
Money market and FDIC insured accounts	\$ 654,919	48%	\$ 654,919			N/A
Certificate of deposit	207,131	15%	207,131			N/A
Total Cash	862,050	63%	862,050			
Investment Pools:						
TexPool	504,345	37%	504,345			AAA
Total Investment Pools	504,345	37%	504,345			
Total Cash and Cash Equivalents	\$ 1,366,395	100%	\$ 1,366,395			

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

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

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

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the district's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2018, the District was not exposed to credit risk.

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

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

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

The District had no investments during the year under audit.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of August 31, 2018 is as follows:

	Receivable	Payable	Purpose	Current?
General Fund	\$ 12,270		Temporary advances	Yes
Special Revenue Funds		12,270	Temporary advances	Yes
Total	<u>\$ 12,270</u>	<u>\$ 12,270</u>		

Interfund transfers for the year ended August 31, 2018 consisted of the following individual amounts:

	Transfers In	Transfers Out	Purpose
Special Revenue Fund	\$ 8,063		Operating deficit transfer
General Fund		8,063	Operating deficit transfer
Total	<u>\$ 8,063</u>	<u>\$ 8,063</u>	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2018 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General Fund	\$ 48,161	\$ 107,043	\$ 155,204
Nonmajor Governmental Funds		13,153	13,153
Total Governmental Activities	<u>\$ 48,161</u>	<u>\$ 120,196</u>	<u>\$ 168,357</u>

Payables at August 31, 2018 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General Fund	\$ 13,466	\$ 76,903	\$ 90,369
Nonmajor Governmental Funds	2,761	1,329	4,090
Total Governmental Activities	<u>\$ 16,227</u>	<u>\$ 78,232</u>	<u>\$ 94,459</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2018, was as follows:

	Balance 8/31/17	Additions	Disposals	Balance 8/31/18
Governmental activities:				
Land and improvements	\$ 40,950	\$ 212,605		\$ 253,555
Infrastructure	197,885	16,133		214,018
Buildings and improvements	1,801,393	12,455		1,813,848
Furniture and equipment	530,490			530,490
Assets under capital lease	88,673			88,673
Totals	2,659,391	241,193		2,900,584
Less accumulated depreciation for:				
Infrastructure	104,979	10,074		115,053
Buildings and improvements	692,256	47,636		739,892
Furniture and equipment	413,249	22,391		435,640
Assets under capital lease	17,734	8,867		26,601
Total accumulated depreciation	1,228,218	88,968		1,317,186
Governmental activities capital assets, net	<u>\$ 1,431,173</u>	<u>\$ 152,225</u>		<u>\$ 1,583,398</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
11 - Instruction	\$ 40,116
13 - Curriculum and staff development	773
23 - School leadership	2,483
31 - Guidance, counseling and evaluation services	1,321
34 - Student (pupil) transportation	21,182
35 - Food services	2,680
36 - Extracurricular activities	2,704
41 - General administration	7,367
51 - Facilities maintenance and operations	7,535
53 - Data processing services	2,807
Total depreciation expense - governmental activities	<u>\$ 88,968</u>

G. BONDS AND LONG-TERM NOTES PAYABLE

The District accounts for long-term debts for maintenance purposes through the General Fund. Long-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from long-term loans are shown in the financial statements as non-current liabilities and principal payments as expenditures in the fund financial statements and reductions in liabilities in the government-wide financial statements.

A summary of changes in general long-term debt for the year ended August 31, 2017 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/18
Long-Term Loans Payable:						
First Financial Bank	4.34%	\$ 47,873	<u>\$ 38,296</u>		\$ 9,014	<u>\$ 29,282</u>

Loan Payable - First Financial Bank -

The District obtained a long-term note payable in August, 2016 to finance the purchase of a new school bus. The amount financed was for \$47,873 payable in annual installments of \$10,559 at an interest rate of 4.34% with final maturity in February, 2021.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2019	\$ 9,377	\$ 1,181	\$ 10,558
2020	9,756	802	10,558
2021	10,149	410	10,559
Totals	<u>\$ 29,282</u>	<u>\$ 2,393</u>	<u>\$ 31,675</u>

I. DEFINED BENEFIT PENSION PLAN

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

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

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

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 179,336,534,819
Less: Plan Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	<u>\$ 31,974,612,699</u>

Net Position as a percentage of Total Pension Liability	82.17%
---------------------------------------------------------	--------

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

Contribution Rates		
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$	28,062
Current fiscal year Member contributions	\$	97,932
2017 measurement year NECE contributions	\$	77,769

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
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 ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. 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 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 466,841	\$ 276,925	\$ 118,789

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$276,925 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	\$ 276,925
State's proportionate share that is associated with the District	760,308
Total	<u><u>\$ 1,037,233</u></u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net pension liability was 0.0008660785% which was an increase of 0.0000401764% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation. There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, the District recognized pension expense of \$101,982 and revenue of \$57,993 for support provided by the State in the Government-Wide Statement of Activities.

At August 31, 2018, 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
Difference between expected and actual economic experiences	\$ 4,052	\$ 14,934
Changes in actuarial assumptions	12,614	7,221
Differences between projected and actual investment earnings		20,182
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	71,819	18
Total as of August 31, 2017 measurement date	\$ 88,485	\$ 42,355
Contributions paid to TRS subsequent to the measurement date	28,062	
Total as of August 31, 2018 fiscal year end	<u><u>\$ 116,547</u></u>	<u><u>\$ 42,355</u></u>

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

Fiscal year ended August 31,	Amount
2019	\$ 7,335
2020	\$ 25,012
2021	\$ 5,976
2022	\$ 838
2023	\$ 5,680
Thereafter	\$ 1,289

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	399,535,986
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

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, 2016 - Dec. 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ 0	\$ 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

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 plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan 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 .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2017	2018
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%

Current fiscal year District contributions	\$	10,511
Current fiscal year member contributions	\$	8,267
2017 measurement year NECE contributions	\$	12,306

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 \$212.0 million in fiscal year 2018.

Actuarial Assumptions. The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

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

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
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
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

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

** Includes inflation at 2.50%

*** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% 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, 2017.

Sensitivity of the Net OPEB Liability:

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

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 711,869	\$ 603,152	\$ 515,768

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 net OPEB liability	\$ 502,184	\$ 603,152	\$ 735,634

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

Related to OPEBs. At August 31, 2018, the District reported a liability of \$603,152 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	\$ 603,152
State's proportionate share that is associated with the District	1,029,291
Total	<u>\$ 1,632,443</u>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0013869945%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016.

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

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

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

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

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

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

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

For the year ended August 31, 2018, the District recognized OPEB expense of (\$546,693) and revenue of (\$344,428) for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience		\$ 12,591
Changes in actuarial assumptions		239,708
Differences between projected and actual investment earnings	92	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1	
Total as of August 31, 2017 measurement date	\$ 93	\$ 252,299
Contributions paid to TRS subsequent to the measurement date	10,511	
Total as of August 31, 2018 fiscal year end	<u>\$ 10,604</u>	<u>\$ 252,299</u>

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

Year ended August 31,	Amount
2019	\$ (33,278)
2020	\$ (33,279)
2021	\$ (33,279)
2022	\$ (33,279)
2023	\$ (33,302)
Thereafter	\$ (85,789)

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.00% for 2016 and 2017 and 1.25% for 2018. The contribution rate for the district was 0.55% for 2016 and 2017 and 0.75% for 2018. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 % for 2016 and 2017 and 1.25% for 2018.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2018, 2017 and 2016 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2018	0.65%	\$ 8,267	1.25%	\$ 15,898	0.75%	\$ 9,549
2017	0.65%	\$ 8,213	1.00%	\$ 12,635	0.55%	\$ 6,950
2016	0.65%	\$ 7,881	1.00%	\$ 12,126	0.55%	\$ 6,670

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2018, 2017 and 2016 were \$3,953, \$3,727 and \$4,738, respectively.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2018, was as follows:

	(restated) Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Note Payable	\$ 38,296		\$ 9,014	\$ 29,282	\$ 9,377
Net Pension Liability	312,096	(6,786)	28,385	276,925	0
Net OPEB liability	1,064,834	(454,471)	7,211	603,152	0
Total	<u>\$ 1,415,226</u>	<u>\$ 461,257</u>	<u>\$ 44,610</u>	<u>\$ 909,359</u>	<u>\$ 9,377</u>

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

	Unavailable Revenue (levied but uncollected property taxes)
General Fund	<u>\$ 48,161</u>

N. DUE FROM STATE AND FEDERAL AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

	State Entitlements	Federal Grants	Total
General	\$ 107,043		\$ 107,043
Special Revenue		13,153	13,153
Net Total Receivables	<u>\$ 107,043</u>	<u>\$ 13,153</u>	<u>\$ 120,196</u>

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Description	General Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 1,478,652		\$ 1,478,652
Penalties, interest and other tax related income	14,855		14,855
Food sales		28,323	28,323
Investment income	20,654	18	20,672
Extracurricular student activities	6,357	103	6,460
Local grants and donations	50,000		50,000
Total	<u>\$ 1,570,518</u>	<u>\$ 28,444</u>	<u>\$ 1,598,962</u>

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District participates in 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, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education services with the Greater Erath County Special Ed Co-op. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Stephenville ISD, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 11. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 11 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2018 the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers' compensation program administered by Texas Educational Insurance Association (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$5,757 incurred but not reported claims and a loss-limit of \$13,815. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2018, are reflected as accounts and claims payable of the Fund (if material). The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

During the year ended August 31, 2018, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

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

S. GENERAL FUND FEDERAL SOURCE REVENUES

Revenues from federal sources, which are reported in the General Fund, consist of:

Program or Service	CFDA	Amount
E-rate reimbursement	N/A	<u>\$ 24,520</u>

T. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. With GASB 75, the District assumed their proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$1,057,623) which resulted in a restated beginning net position balance of \$1,516,519.

U. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2018; the date which the financial statements were available for distribution. There were none noted.

V. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS - STATEMENT OF ACTIVITIES

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 - Instruction	\$ (52,641)	\$ (227,930)	\$ 175,289
12 - Instructional resources and media services	171	0	171
13 - Curriculum and instructional staff development	(214)	(5,238)	5,024
23 - School leadership	(13,067)	(15,713)	2,646
31 - Guidance, counseling and evaluation services	(6,550)	(7,875)	1,325
34 - Student (pupil) transportation	(1,667)	(2,004)	337
35 - Food services	32,921	(8,724)	41,645
36 - Extracurricular activities	(6,341)	(7,625)	1,284
41 - General administration	(33,074)	(39,771)	6,697
51 - Facilities maintenance and operations	(10,924)	(13,136)	2,212
53 - Data processing services	(13,649)	(16,412)	2,763
	<u>\$ (105,035)</u>	<u>\$ (344,428)</u>	<u>\$ 239,393</u>

W. TAX ABATEMENTS

On October 20, 2016, the District's Board of Trustees approved an Agreement with Buckthorn Wind Project, LLC (the "Applicant") for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Each company qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as renewable energy projects.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in the statute. The project(s) under the Chapter 313 Agreement(s) must be consistent with the State's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, the Applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the Application's approval, the Agreement was deemed to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the project. The Application, the Agreement, and state reporting requirement documentation can be viewed at the Texas Comptroller's website:

<https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>

After approval, the Applicant company must maintain a viable presence in the District for the entire period of the value limitation, plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that an entity terminates the Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligation under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement together with the payment of penalty and interest on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01 (a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01 (c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of the audit report, the Applicant company is in full compliance with all of their obligations under law and the individual Agreement.

The following is a table related to the net benefit of the project to the District but does not include any (if applicable) interest and sinking impact.

Project:		Buckthorn Wind Project, LLC (Application #1126)				
First Year Value Limitation:		2018 tax year				
(A) Project Value 2017	(B) Project's Value Limitation Amount 2017	(C) Amount of Applicant's M&O Taxes Paid 2017	(D) Amount of Applicant's M&O Taxes Reduced 2017	(E) Company Revenue Loss Payment to School District 2017	(F) Company Supplemental Payment to School District 2017	(G) Net Benefit (Loss) to the School District 2017 (C+E+F)
\$ 0	Not applicable	\$ 0	\$ 0	\$ 0	\$ 50,000	\$ 50,000

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REQUIRED SUPPLEMENTARY INFORMATION

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,511,456	\$ 1,486,713	\$ 1,570,518	\$ 83,805
5800	State Program Revenues	607,384	607,384	646,623	39,239
5900	Federal Program Revenues	-	-	24,520	24,520
5020	Total Revenues	2,118,840	2,094,097	2,241,661	147,564
EXPENDITURES:					
Current:					
0011	Instruction	1,069,823	1,091,566	1,131,405	(39,839)
0012	Instructional Resources and Media Services	2,822	2,822	3,670	(848)
0013	Curriculum and Instructional Staff Development	24,155	24,155	18,641	5,514
0023	School Leadership	95,705	95,705	73,146	22,559
0031	Guidance, Counseling and Evaluation Services	49,012	49,012	38,915	10,097
0033	Health Services	12,795	12,795	12,316	479
0034	Student (Pupil) Transportation	36,765	34,765	35,415	(650)
0035	Food Services	-	-	2,399	(2,399)
0036	Extracurricular Activities	84,604	81,604	79,653	1,951
0041	General Administration	242,598	239,398	217,052	22,346
0051	Facilities Maintenance and Operations	235,968	234,291	242,573	(8,282)
0052	Security and Monitoring Services	5,000	16,277	8,675	7,602
0053	Data Processing Services	69,042	54,059	82,691	(28,632)
Debt Service:					
0071	Principal on Long Term Debt	9,050	9,050	9,014	36
0072	Interest on Long Term Debt	1,550	1,550	1,545	5
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	-	212,605	(212,605)
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	19,800	19,800	15,044	4,756
0099	Other Intergovernmental Charges	39,007	39,007	38,323	684
6030	Total Expenditures	1,997,696	2,005,856	2,223,082	(217,226)
1100	Excess of Revenues Over Expenditures	121,144	88,241	18,579	(69,662)
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(17,000)	(17,000)	(8,063)	8,937
1200	Net Change in Fund Balances	104,144	71,241	10,516	(60,725)
0100	Fund Balance - September 1 (Beginning)	1,328,425	1,328,425	1,328,425	-
3000	Fund Balance - August 31 (Ending)	\$ 1,432,569	\$ 1,399,666	\$ 1,338,941	\$ (60,725)

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0008660785%	0.0008259021%	0.0007649000%	0.0005150000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 276,925	\$ 312,096	\$ 270,382	\$ 137,564
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	760,308	907,459	813,008	661,091
Total	<u>\$ 1,037,233</u>	<u>\$ 1,219,555</u>	<u>\$ 1,083,390</u>	<u>\$ 798,655</u>
District's Covered Payroll	\$ 1,263,537	\$ 1,212,640	\$ 1,076,106	\$ 1,085,604
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	21.92%	25.74%	25.13%	12.67%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: Only four 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year Ended August 31,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 28,062	\$ 28,180	\$ 26,376	\$ 22,649
Contribution in Relation to the Contractually Required Contribution	(28,062)	(28,180)	(26,376)	(22,649)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 1,271,839	\$ 1,263,537	\$ 1,212,640	\$ 1,076,106
Contributions as a percentage of Covered Payroll	2.21%	2.23%	2.18%	2.10%

Note: Only four 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year Ended August 31, 2017
District's Proportion of the Net OPEB Liability (Asset)	0.0013869945%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 603,152
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	1,029,291
Total	<u>\$ 1,632,443</u>
District's Covered Payroll	\$ 1,263,537
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	47.74%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year Ended August 31, <u>2018</u>
Contractually Required Contribution	\$ 10,511
Contribution in Relation to the Contractually Required Contribution	<u>(10,511)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's Covered Payroll	\$ 1,271,839
Contributions as a percentage of Covered Payroll	0.83%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

Budget

The official budget was prepared for adoption for all Governmental 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.:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. 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.
- c. Prior to the beginning of the fiscal year, 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 that 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.

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefit Plan

Changes of benefit terms.

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

Changes of assumptions.

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

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

COMBINING SCHEDULES

HUCKABAY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ 3,207	\$ -	\$ -
1240	Receivables from Other Governments	8,128	883	-	4,142
1000	Total Assets	<u>\$ 8,128</u>	<u>\$ 4,090</u>	<u>\$ -</u>	<u>\$ 4,142</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ 2,761	\$ -	\$ -
2160	Accrued Wages Payable	-	1,302	-	-
2170	Due to Other Funds	8,128	-	-	4,142
2200	Accrued Expenditures	-	27	-	-
2000	Total Liabilities	<u>8,128</u>	<u>4,090</u>	<u>-</u>	<u>4,142</u>
FUND BALANCES					
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 8,128</u>	<u>\$ 4,090</u>	<u>\$ -</u>	<u>\$ 4,142</u>

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,609	\$ 4,816
-	-	-	13,153
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,609</u>	<u>\$ 17,969</u>
\$ -	\$ -	\$ -	\$ 2,761
-	-	-	1,302
-	-	-	12,270
-	-	-	27
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,360</u>
-	-	1,609	1,609
<u>-</u>	<u>-</u>	<u>1,609</u>	<u>1,609</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,609</u>	<u>\$ 17,969</u>

HUCKABAY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 28,323	\$ -	\$ -
5800 State Program Revenues	-	376	-	-
5900 Federal Program Revenues	24,864	39,800	1,368	4,142
5020 Total Revenues	24,864	68,499	1,368	4,142
EXPENDITURES:				
Current:				
0011 Instruction	24,693	-	1,368	-
0012 Instructional Resources and Media Services	171	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	4,142
0035 Food Services	-	76,562	-	-
6030 Total Expenditures	24,864	76,562	1,368	4,142
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(8,063)	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	8,063	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 121	\$ 28,444
-	11,010	-	11,386
21,368	-	-	91,542
21,368	11,010	121	131,372
21,368	11,010	-	58,439
-	-	-	171
-	-	-	4,142
-	-	-	76,562
21,368	11,010	-	139,314
-	-	121	(7,942)
-	-	-	8,063
-	-	121	121
-	-	1,488	1,488
\$ -	\$ -	\$ 1,609	\$ 1,609

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2018

	BALANCE SEPTEMBER 1 2017	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2018
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 40,616	\$ 123,083	\$ 106,632	\$ 57,067
Liabilities:				
Due to Student Groups	\$ 40,616	\$ 123,083	\$ 106,632	\$ 57,067
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 40,616	\$ 123,083	\$ 106,632	\$ 57,067
Liabilities:				
Due to Student Groups	\$ 40,616	\$ 123,083	\$ 106,632	\$ 57,067

REQUIRED TEA SCHEDULES

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.000000	116,525,088
2011	1.040000	0.000000	114,361,808
2012	1.040000	0.000000	115,824,649
2013	1.040000	0.000000	113,086,732
2014	1.040000	0.000000	116,267,084
2015	1.040000	0.000000	120,801,256
2016	1.040000	0.000000	122,258,989
2017	1.040000	0.000000	135,337,242
2018 (School year under audit)	1.040000	0.000000	144,144,901
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 9,472	\$ -	\$ 327	\$ -	\$ (1,370)	\$ 7,775
3,472	-	4	-	(62)	3,406
3,280	-	66	-	(62)	3,152
2,734	-	-	-	(63)	2,671
2,847	-	134	-	(63)	2,650
3,434	-	169	-	(714)	2,551
3,068	-	219	-	(83)	2,766
4,703	-	560	-	(343)	3,800
30,106	-	10,716	-	(1,224)	18,166
-	1,499,107	1,466,457	-	(3,359)	29,291
<u>\$ 63,116</u>	<u>\$ 1,499,107</u>	<u>\$ 1,478,652</u>	<u>\$ -</u>	<u>\$ (7,343)</u>	<u>\$ 76,228</u>

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 30,000	\$ 30,000	\$ 28,323	\$ (1,677)
5800	State Program Revenues	3,114	3,114	376	(2,738)
5900	Federal Program Revenues	41,200	41,200	39,800	(1,400)
5020	Total Revenues	74,314	74,314	68,499	(5,815)
EXPENDITURES:					
0035	Food Services	87,470	87,470	76,562	10,908
6030	Total Expenditures	87,470	87,470	76,562	10,908
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,156)	(13,156)	(8,063)	5,093
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	17,000	17,000	8,063	(8,937)
1200	Net Change in Fund Balances	3,844	3,844	-	(3,844)
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ 3,844	\$ 3,844	\$ -	\$ (3,844)

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
Huckabay Independent School District
200 County Road 421
Stephenville, Texas 76401

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Huckabay Independent School District (the "District") as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Huckabay Independent School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* listed as item 2017-3 on the accompanying Schedule of Findings and Questioned Costs.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Cameron L. Gulley
Certified Public Accountant

October 18, 2018

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

Finding	Statement of Condition	Material Weakness?	Questioned Costs
2017-1	<p><u>State Compliance - Failure to Obtain Requisite Training in Accordance With Public Funds Investment Act</u></p> <p>During the 2016-17 fiscal year, the District's investment officer had not received formal investment officer training in accordance with the Act.</p> <p><u>Status:</u> The District's investment officer obtained the requisite training in accordance with the Act.</p>	No	None
2017-2	<p><u>Internal Controls Over Financial Reporting - Deficiency in Internal Controls Regarding Accrued Liabilities</u></p> <p>There were numerous accruals during the 2016-17 fiscal year which were not appropriately made or were erroneously accrued. Particularly, a deficiency regarding payroll accruals not properly reversed from the previous year in the General Fund totaled approximately \$26,000 and overstated current year payroll expenditures by that amount. Additionally, expenditures for windfarm application fees totaling \$25,000 were erroneously coded to accounts payable resulting in a debit account balance by that amount at year-end.</p> <p><u>Status:</u> Accruals were properly made during the current year under audit.</p>	No	None
2017-3	<p><u>State Compliance - Excess Expenditures Over Appropriations</u></p> <p>The District failed to identify functional categories within both the General and Food Service Funds when expenditures exceeded the adopted budgets for each fund.</p> <p><u>Status:</u> The District again failed to properly identify and amend numerous functional categories in the General Fund for the current year under audit. See continuation finding 2017-3 on the accompanying Schedule of Findings and Questioned Costs.</p>	No	None

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:
Material weakness(es) identified? No.
Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported.

Noncompliance material to financial statements noted? No.

B. Federal Awards

Not applicable.

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

2017-3 State Compliance - Excess Expenditures Over Appropriations (continuation finding)

Criteria Governmental entities required to adopt a budget must not exceed the approved budget with expenditures until authorized by the board of trustees through budget amendments at any time during the year.

Statement of Condition The District failed to identify functional categories in the General Fund when expenditures exceeded the adopted budgets for each fund. Following are the net variances for each of the affected functional categories which exceeded the budget by more than \$2,500:

Functional Category	Final Amended Budget	Actual Expenditure	Budget Variance
Function 11 - Instruction	\$ 1,091,566	\$ 1,131,405	\$ (39,839)
Function 51 - Facilities Maintenance and Operations	\$ 234,291	\$ 242,573	\$ (8,282)
Function 53 - Data Processing Services	\$ 54,059	\$ 82,691	\$ (28,632)
Function 81 - Facilities Acquisition and Construction	\$ 0	\$ 212,605	\$ (212,605)

Questioned Costs None.

Cause and Effect See Footnote II.B. on page 21 of the Notes to The Financial Statements for detailed explanations for the negative budget variances. For Functions 11, 51 and 53, the District made budget amendments based upon preliminary financial information (as of August 28, 2018) for the month of August before end of year accruals were posted (on August 31, 2018). The expenditure overage for Function 81 was due to an oversight because the journal entry to record the purchase of real estate in August, 2018 was also not made until August 31, 2018 and, therefore, the budgetary analysis as of August 28, 2018 failed to include that negative variance. The board approved the real estate purchase in its July board meeting, but failed to also authorize a budget amendment for the purchase.

Recommendations The District should review its business services procedures and analyses of account transactions and balances. Budget amendments should be considered and proposed to the board of trustees whenever it is projected that actual expenditures will be more than currently budgeted before the actual expenditure of funds.

III. Findings and Questioned Costs for Federal Awards

N/A.

HUCKABAY INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

2017-3 The District will make budget amendments (as necessary) where expenditures are projected to exceed originally adopted budgets.

Contact representative: Troy Roberts, superintendent
 200 County Road 421
 Stephenville, Texas 76401
 (254) 968-8476

Expected implementation date: Immediately

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APPENDIX D

**FORM OF BOND COUNSEL'S
OPINION**

UNDERWOOD

GERALD BYBEE
Phone: 806.379.0380
Fax: 806.379.0316
www.uwlaw.com
Gerald.Bybee@uwlaw.com

ADDRESS:
500 S. Taylor Street
Suite 1200, LB 233
Amarillo, TX 79101-2446
MAILING ADDRESS:
P.O. Box 9158
Amarillo, TX 79105-9158

September 17, 2019

**\$7,940,000 HUCKABAY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2019**

WE HAVE represented Huckabay Independent School District (the "District") as its bond counsel, in connection with an issue of bonds (the "Bonds") described as follows:

**HUCKABAY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2019, dated August 15, 2019**

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and the order adopted by the Board of Trustees of the District authorizing their issuance. (the "Order").

WE HAVE represented the District as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and rendering an opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. We have also examined applicable provisions of the Internal Revenue Code of 1986 as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District, customary certificates of officers, agents, and representatives of the District and other public

officials and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. T-1.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore, the Bonds constitute valid and legally binding obligations of the District; and

(B) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District; and

(C) Interest on the Bonds is excludable from gross income, as defined in Section 61 of the Internal Revenue Code of 1986 as amended to the date of this opinion (the "Code"), pursuant to Section 103 of the Code and existing regulations, published rulings and court decisions; and

(D) The Bonds are not "specified private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

In providing such opinions, we have relied on legal opinions of the Attorney General of the State of Texas regarding the legality and validity of the Bonds under the Constitution and laws of the State of Texas and representations of the District and the Underwriter with respect to matters solely within the knowledge of the District and the Underwriter, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Order, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their

effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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 District as the taxpayer. We observe that the District has covenanted in the Order 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.

Sincerely,

