Ratings: S&P "A-" (Underlying) Negative Outlook
(See "Rating" and "The Permanent School Fund Guarantee Program" herein)

OFFICIAL STATEMENT

Dated May 21, 2020

<u>NEW ISSUE</u>: BOOK-ENTRY-ONLY

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

$28,368,741.80
DESOTO INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

Dated Date: June 1, 2020 **Due: August 15, as shown on inside cover**

The $28,368,741.80 DeSoto Independent School District Unlimited Tax Refunding Bonds, Series 2020, (the "Bonds"), which are being issued in part as Current Interest Bonds ("CIBs") and in part as Capital Appreciation Bonds ("CABs") (collectively, the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order passed by the Board of Trustees (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved and executed a "Pricing Certificate" which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within the DeSoto Independent School District (the "District" or "Issuer"). An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")

Interest on the CIBs will accrue from the dated date set forth above and be payable February 15 and August 15 of each year, commencing August 15, 2020. Interest on the CABs will accrete from the date they are initially delivered, compound semiannually on February 15 and August 15 of each year (each an "Accretion Date") commencing August 15, 2020, and be payable only upon maturity. The CIBs will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof, and the CABs will be issued as fully registered bonds in denominations of $5,000 representing the total amount of principal, plus the initial premium, if any, therefor and accreted interest payable upon maturity (the "Maturity Value"), or any integral multiple thereof. Principal and Maturity Values of the Bonds will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar") which initially is UMB Bank, N.A., Dallas, Texas, upon presentation and surrender of the Bonds for payment. Interest on the CIBs is payable by check or draft dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date"), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

The District has experienced significant financial and operating difficulties for the past two years. Please see "RECENT EVENTS AFFECTING THE DISTRICT" herein.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "Book-Entry-Only System" herein).

Proceeds from the sale of the Bonds will be used to (1) refund certain maturities of the District's currently outstanding unlimited tax debt as described in Schedule I attached hereto (the "Refunded Bonds") (2) pay costs of issuance of the Bonds.

The CABs are noncallable. The CIBs maturing August 15, 2030 are callable in whole or in part, on August 15, 2029 or any date thereafter at a price of par plus accrued interest to the date of redemption. (See "The Bonds – Redemption Provisions").

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters listed below (the "Underwriters") by Kelly Hart & Hallman LLP, Fort Worth, Texas counsel to the Underwriters. The Bonds are expected to be available for delivery on or about June 17, 2020.

Huntington Securities, Inc.

Estrada Hinojosa **SAMCO Capital Markets**

MATURITY SCHEDULE

CUSIP Base Number[(2)]: 241722

$28,368,741.80 DESOTO INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2020

$4,618,741.80 Capital Appreciation Bonds

Maturity Date 8/15	Principal Amount	Initial Yield %	Maturity Value	Initial Offering Price per $5,000 In Maturity Value	CUSIP Suffix [(2)]
2021	$2,559,890.10	0.620%	$ 6,135,000	2,086.30	FJ1
2022	1,201,903.25	0.710%	6,115,000	982.75	FK8
2023	441,191.35	0.800%	4,765,000	462.95	FL6
2024	247,704.80	0.900%	5,680,000	218.05	FM4
2025	113,997.00	1.000%	5,550,000	102.70	FN2
2026	54,055.30	1.140%	5,590,000	48.35	FP7

(Interest to accrete from date of initial delivery)

$23,750,000.00 Current Interest Bonds

Maturity Date 8/15	Principal Amount	Interest Rate%	Yield%	CUSIP Suffix [(2)]
2027	$5,590,000.00	5.000	0.990	FQ5
2028	5,880,000.00	5.000	1.080	FR3
2029	6,190,000.00	5.000	1.150	FS1
2030	6,090,000.00	5.000	1.250[(1)]	FT9

(Interest to accrue from the Dated Date)

(1) Yield shown is yield to first call date, August 15, 2029.

(2) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriters, the District nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

DESOTO INDEPENDENT SCHOOL DISTRICT
200 E. Beltline Road
DeSoto, Texas 7515

BOARD OF TRUSTEES

Name	Date Elected	Term Expires	Place	Occupation
Karen Daniel, President	May 2017	May 2020	3	Retired Educator
DeAndrea Fleming, Vice President	May 2018	May 2021	6	Educational Consultant
Kathy Goad, Secretary	May 2019	May 2022	2	Retired Educator
Cynthia Watson-Banks, Member	May 2019	May 2022	1	Retired Educator
Tiffany Clark, Member	May 2017	May 2020	4	Counselor
Aubrey C. Hooper, Member	May 2017	May 2020	5	Campus Administrator
Amanda Sargent, Member	May 2018	May 2021	7	Outreach Counselor

CERTAIN APPOINTED OFFICIALS

NAME	POSITION	YEARS OF SERVICE
Dr. D'Andre Weaver	Superintendent	1 year, 4 months
Dr. Don Hooper	Interim Chief Financial Officer	3 months
Mia Stroy	Chief of Human Resources	1 year
Benjamin Mackey	Chief of Research, Evaluation and Design	8 months
Celeste Barretto	Chief Academic Officer	10 months
Natalia Fernandez	Chief of Student Support Services	1 year

CONSULTANTS AND ADVISORS

Bond Counsel……………………………………………………………………McCall, Parkhust & Horton L.L.P., Dallas, Texas
Financial Advisor…………………………………………………………….…..STIFEL, Dallas, Texas
Property Appraised by………………………………………………………..Dallas County Appraisal District
Chief Appraiser/Tax Collector……………………………………………....W. Kenneth Nolan

FOR ADDITIONAL INFORMATION PLEASE CONTACT:

Dan Mahoney, CFA
Vice President
Stifel
8115 Preston Rd., Suite 225
Dallas, Texas 75225
(469) 676-5347

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

This official statement contains "forward-looking" statements within the meaning of section 21E of the securities exchange act of 1934, as amended. Such statements may involve known and unknown risks uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

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

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the District. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

TABLE OF CONTENTS

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	DeSoto Independent School District (the "District" or "Issuer") is a political subdivision located in Dallas County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The $28,368,741.80 DeSoto Independent School District Unlimited Tax Refunding Bonds, Series 2020, (the "Bonds"), are being issued in part as Current Interest Bonds ("CIBs") and in part as Capital Appreciation Bonds ("CABs") (collectively, the "Bonds") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order passed by the Board of Trustees (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved and executed a "Pricing Certificate" which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within the District. An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company.
Security	The Bonds will constitute direct obligations of the District, payable as to the principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. (See "THE BONDS - Security"). The Bonds are expected to be guaranteed by the State of Texas Permanent School Fund Guarantee Program.
Optional Redemption	The CABs are noncallable. The CIBs maturing August 15, 2030 are callable in whole or in part, on August 15, 2029 or any date thereafter at a price of par plus accrued interest to the date of redemption. (See "The Bonds – Redemption Provisions").
Tax Exemption	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof.
Payment Record	The District has never defaulted in the payment of its debt obligations.
Legal Opinion	McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued on or about June 17, 2020.

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and Appendices A, B and D, has been prepared by the DeSoto Independent School District, in Dallas County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") identified on the cover page hereof.

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

RECENT EVENTS AFFECTING THE DISTRICT

Texas school district property tax rates are composed of two distinct rates: the maintenance and operations ("M&O") tax rate and the interest and sinking fund ("I&S") tax rate. The M&O tax rate funds the maintenance and operation costs of the District, and the I&S tax rate funds the repayment of bond debt issued to finance capital improvements. Increases in the M&O tax rate can generate additional state funding (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, which provides a general overview of the arrangement for state and local funding of Texas independent school districts). Prior to the District's 2015-2016 fiscal year, the District had a total tax rate of $1.47 per $100 of taxable assessed value, of which $1.04 was collected for M&O and $0.43 was collected for I&S. On September 5, 2015, voters of the District approved a tax ratification election (the "TRE") which authorized the District to increase its M&O tax rate by $0.13 to $1.17 per $100 taxable assessed valuation, which was at the time the maximum M&O tax rate allowed by Texas law (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, for a discussion in changes to school district taxation brought about by the 2019 Legislation). Following the TRE, the District increased the M&O tax rate to $1.17 and reduced the I&S tax rate by $0.14 to $.029 per $100 of taxable assessed value to offset the $0.13 increase in the M&O tax rate. The result was a total tax rate for the 2015-2016 fiscal year of $1.46 (a decrease of $0.01 from its pre-TRE total tax rate).

The reduced I&S collections resulting from the shift described above were expected to be offset by a portion of the additional revenue generated by the increased M&O collections and additional state funding. Such offset should have been reflected in the budget for the 2015-2016 fiscal year, and each fiscal year budget thereafter, by the specific earmarking of such portion of the M&O collections necessary for the payment of debt service. However, the prior administration of the District failed to earmark the additional M&O revenues for the payment of debt service. Instead, the increased revenues were applied towards other operational costs of the District. As a result, the I&S fund was prematurely depleted and, in August of 2018, the prior administration was forced to make an unbudgeted transfer of M&O tax funds in the amount of approximately $8.4 million from the District's general fund to the District's I&S fund in order to make timely payment (the "2018 Transfer").

In September of 2018, following the 2018 Transfer, the District determined that the District had failed to properly budget for the transfer of M&O collections to pay debt service, and that the 2018 Transfer would result in a shortfall of the M&O tax funds necessary to meet the day-to-day operations of the District in fiscal year 2018-2019. To address this shortfall, on November 20, 2018, the District borrowed $6,000,000 to pay customary operational expenses of the District, including salaries. This borrowing consisted of a Tax and Revenue Anticipation Note, Taxable Series 2018 (the "TRAN") which was sold to PNC Bank in a private placement transaction and matured on May 15, 2019.

Legal limitations prevent the District from using I&S tax funds to pay for maintenance and operations; therefore, the District is precluded from transferring amounts collected in the debt service fund to repay the prior transfers or to cover any future maintenance and operation expenses. In addition, the District's 2018-2019 budget was amended to account for items not originally budgeted, including employee pay raises, a capital project, a shortfall in the capital projects fund, a loan repayment, and an overestimated average daily attendance resulting in a decrease of state funds. As a result, the 2018 Transfer, together with such unbudgeted expenditures, resulted in a projected cash flow deficit for the 2018-2019 fiscal year.

The District issued its Maintenance Tax Notes, Taxable Series 2019 (the "Notes") to address the cash flow deficit. Additionally, neither the 2018-2019 I&S tax receipts nor the District's debt service fund balance were sufficient to meet the debt service payments due on August 15, 2019; therefore, the District issued its Unlimited Tax Refunding Bonds, series 2019, to refinance and restructure certain of its outstanding bonds in order to realize cash flow relief in connection with the 2019 debt service payments.

Current Administration

The District has made significant changes to its management team over the last 24 months due in part to the issues described above. The District's current Superintendent was hired by the District in September of 2018. Under the direction of the new Superintendent, the District engaged in a reorganization of its senior administration, which resulted the re-staffing of all cabinet-level employees of the District. The District's prior Chief Financial Officer ("CFO") resigned in September 2018. An interim CFO was hired in September 2018. A permament replacement was hired in December, 2019 and resigned in January, 2020. The District's current interim CFO was hired in February of 2020.

Local news outlets have reported that certain members of the District's prior administration are under investigation by one or more state agencies for the mismanagement of District funds. The District has been advised not to comment on any ongoing investigation, however, the District does not expect that any outcome from the investigation would have any material adverse impact on the financial condition or operations of the District.

Strategic Plan

In combination with the financings described above the District's current administration developed a strategic plan to restore the District's financial situation. Specifically, the District set out steps to ensure a healthy general fund balance and sufficient revenues to pay debt service coming due on the District's outstanding bonds. This plan included budget cuts in the amount of approximately $23 million and increasing the I&S tax rate to an amount sufficient to pay all debt service expenses beginning in the 2020-2021 fiscal year. The increase of the District's I&S tax rate does not require voter approval.

The largest component of the planned budget cuts was a reduction of District staffing, including a reduction in District administrative, professional and teaching staff of approximately 200 positions. The District has historically maintained student-to-teacher ratios lower than those recommended by the Texas Association of School Boards, and the reductions resulted in student-to-teacher ratios at or just above such recommendations.

The District successfully cut $16.7 million during the implementation of this plan. Further reductions are continuously considered and some further small cuts have been made including closing some loss leading summer programs. The administration is currently satisfied with the measures taken and believes the District to now be stable.

In February of 2020 the District hired a new interim CFO on a one year contract. The new CFO immediately set out to reshape the District's budgeting process. One of the key components of the new plan is the implementation of a new "Zero Based Objective Budget". The purpose of such a budgeting process is to ensure that moving forward spending will only be approved if District officials can prove the merit and necessity of spending.

Material Weaknesses and Significant Deficiencies

In preparing the District's audited financial report for the 2017-2018 fiscal year, the District's auditors found that the District's prior CFO did not adequately review fiscal year end reconciliations, resulting in several audit adjustments. In addition, the District's auditors noted as significant deficiencies the District's failure to (1) reimburse expenses without proper documentation, (2) properly review attendance information, and (3) comply with certain federal procurement guidelines. The auditors also noted that the District failed to comply with state and TEA budgeting guidelines.

The District's audited financial report for the 2017-2018 fiscal year set forth the District's concurrence with the recommendations of the District's auditors regarding remedial measures and the District's corrective action plans, which include an emphasis on the hiring of qualified financial staff, and the creation and staffing of a Budget and Grant Manager position.

In preparing the District's audited financial report for the 2018-2019 fiscal year, the District's auditors found no material weaknesses, however, the District's auditors did identify a significant deficiency in internal control relating to the monitoring of employee status. The corrective action plan of the District in response to this deficiency is set forth in the audited financial report.

Forensic Audit

In October of 2019, the Board authorized the District's Auditor, Weaver & Tidwell LLP, to perform a forensic audit (the "Forensic Audit") to determine the extent of the mismanagement. On April 27, 2020, the results of the Forensic Audit were presented to the Board. On May 6, 2020, the results of the audit were made public.. The investigation revealed that the District incurred a $21.6 million deficit resulting from a mixture of unavoidable costs, financial mismanagement, and potential fraud, waste, or abuse. Much of the report identifies items and actions that were already known and disclosed including: mishandling of District funds following the TRE; overspending on construction projects owing to inexperienced personnel supervising projects; and growing cumulative debts owing to failure to appropriate budget and oversee funds. The following is a summary of the observations and findings included in the Forensic Audit:

- The District incurred a $21.6 million cumulative deficit during fiscal years 2017 – 2019;

- Actions taken by prior District management with approval from the Board during fiscal years 2015 – 2016 put the District in a position of dependency on future growth to meet its rising debt obligations;

- Prior District management mismanaged the budgeting and planning for the construction of a new elementary school including the failure to prepare a formal budget that included all of the costs the District was responsible for, as well as its failure to provide timely financial information to the Board. The mismanagement caused the District to spend $2.6 million more on capital projects than it had available in bond funds.

- Of the District’s cumulative $21.6 million deficit, $14 million was attributable to financial mismanagement by prior District management, $0.6 million was attributable to potential fraud, waste, or abuse, and $7 million was outside of the District’s control due to external factors;

- Information included on the District’s website in advance of the TRE was potentially misleading in its characterization of the additional revenue the District would receive and its impact on its debt service revenues;

- The Board was unaware of the extent of the District’s financial issues until approximately August 2018 as a result of incomplete, and in some cases inaccurate, information provided to the Board including certain monthly financial report; and

- Prior District management failed to ensure and prioritize the enforcement of the District’s policies and procedures, and were complicit in the circumvention of the District’s policies and procedures.

Recommendations of Forensic Audit

The Forensic Audit notes that under the leadership of the current District management, some of the deficiencies have begun to be addressed. New policies and procedures have been implemented including: terminating a credit card program that was the subject of possible abuse under the prior District management, , implementation of zero based budgeting, cross training personnel to ensure better checks and balances, and stricter monitoring of existing policies and procedures. Furthermore the Forensc Audit made the following recommendations:

1. The Board should be provided with regular reports comparing budgeted expenditures to actual expenditures by major funds. Recommendations including suggested corrective measures should be provided to the Board for consideration related to any negative trends or deficits.

2. Employees should be regularly educated regarding District purchasing policies and guidelines including the proper use of competitive bidding, purchase orders, check requests and credit cards.

3. Employees should also be regularly educated regarding the District’s travel guidelines, including the requirement that expenses must be reasonable and related to District business, the accepted forms of support for travel related expenses, and the proper authorization procedures.

4. The Board should consider the review of its current conflicts of interest policy to ensure compliance with the law and best practices, and affix responsibility for monitoring compliance therewith, applicable to the Board, management and all other employees.

5. The Board should review its nepotism policy and consider the potential expansion of its application.

6. The Board should implement a policy that appoints subcommittees to oversee major projects and initiatives, receiving timely and relevant financial and budget information.

7. The Board should cooperate with the TEA in regard to any potential disciplinary action by the State Board for Educator Certification against applicable former employees.

A copy of the Forensic Audit is available on the District’s website at www.desotoisd.org/news/what_s_new/2020_forensic_audit. This reference to the District’s website is for informational purposes only, and neither the website nor the information contained on such website shall be deemed incorporated herein by reference. The District is not obligated to continue to provide information on the District website.

THE BONDS

Authorization And Purpose

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order (the “Bond Order”) adopted by the Board. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who approved a “Pricing Certificate” which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the “Order”). Proceeds from the sale of the Bonds will be used to (1) refund certain of the District’s currently outstanding unlimited tax debt as described in Schedule I attached hereto (the “Refunded Bonds”), and (2) pay costs of issuance of the Bonds.

General Description

The Bonds will be dated June 1, 2020 (the "Dated Date"). Interest on the CIBs will accrue from June 1, 2020 (the "Dated Date") and be payable February 15 and August 15 of each year, commencing August 15, 2020. Interest on the CABs will accrete from the date they are initially delivered, compound semiannually on February 15 and August 15 of each year (each an "Accretion Date") commencing August 15, 2020, and be payable only upon maturity. The CIBs will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof, and the CABs will be issued as fully registered bonds in denominations of $5,000 representing the total amount of principal, plus the initial premium, if any, therefor and accreted interest payable upon maturity (the "Maturity Value"), or any integral multiple thereof. Principal and Maturity Values of the Bonds will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar") which initially is UMB Bank, N.A., Dallas, Texas, upon presentation and surrender of the Bonds for payment. Interest on the CIBs is payable by check or draft dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date"), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in principal or Maturity Values of $5,000 or any integral multiple thereof within a maturity.

Amounts due at maturity or upon prior redemption of the Bonds will be payable only upon presentation of such Bonds at the designated corporate trust office of the Paying Agent/Registrar at maturity or prior redemption.

Redemption Provisions

Optional Redemption: The CABs are noncallable. The CIBs maturing August 15, 2030 are callable in whole or in part, on August 15, 2029 or any date thereafter at a price of par plus accrued interest to the date of redemption. (See "THE BONDS – Redemption Provisions").

If less than all of the CIBs within a stated maturity are to be redeemed, the District shall determine the principal and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the CIBs or portions thereof, to be redeemed.

At least 30 days prior to the date fixed for any redemption of the CIBs or portions thereof prior to maturity, the District shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each CIB or a portion thereof to be redeemed at its address as it appears on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CIBS 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 CIB OR PORTION THEREOF SHALL CEASE TO ACCRUE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the CIBs or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the CIBs or portions thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided such payment.

At least 30 days prior to the date fixed for any redemption of the CIBs or portions thereof prior to maturity, the District shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each CIB or a portion thereof to be redeemed at its address as it appears on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CIBS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CIB OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CIB OR PORTION THEREOF SHALL CEASE TO ACCRUE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the CIBs or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the CIBs or portions thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided such payment.

With respect to any optional redemption of the CIBs, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the redemption price of the CIBs to be redeemed has been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, 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 our 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 CIBs, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the CIBs have not been redeemed.

All notices of redemption shall (i) specify the date of redemption for the CIBs, (ii) identify the CIBs to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) specify that payment of the redemption price for the CIBs, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a CIB is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such CIB (or the principal or thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, the principal on said CIBs so called for redemption shall become due and payable, and on the redemption date designated in such notice, the principal on said CIBs called for redemption shall cease to accrue and such CIBs shall no longer be deemed to be outstanding.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the CIBs, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the CIBs 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 CIBs called for redemption or any other action premised on any such notice. Redemption of portions of the CIBs by the District will reduce the outstanding principal amount of such CIBs held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such CIBs 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 CIBs from the beneficial owners. Any such selection of CIBs 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 CIBs or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the CIBs for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from annual ad valorem taxes to be levied on all taxable property within the District, without legal limitation as to rate or amount. (See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”). The Bonds are expected to be additionally secured by the corpus of the Permanent School Fund of the State of Texas. (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Yield on Capital Appreciation Bonds

The approximate yield of the CABs as set forth on the inside cover page of this Official Statement is based upon the initial offering price therefor set forth on the inside cover page of this Official Statement. Such offering price includes the principal amount of such Bonds plus premium equal to the amount by which such offering price exceeds the principal amount of such CABs. Because of such premium, the approximate offering yield on the CABs is lower than the interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). As discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the Permanent School Fund.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion will be printed on or attached to the Bonds. (See "LEGAL MATTERS"). Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas.

Payment Record

The District has never defaulted in the payment of its debt obligations.

Refunded Bonds

The Bond Order provides that from a portion of the proceeds of the sale of the Bonds to the Underwriters, the District will deposit with UMB Bank, N.A., Dallas, Texas, the escrow agent for the Refunded Bonds (the "Escrow Agent"), an amount, which will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates shown in Schedule I (the "Redemption Date"). Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States (State and Local Government Series) (the "Defeasance Securities").Ritz & Associates, PA will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with any uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on and to the Redemption Date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of cash and Defeasance Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207 and the bond orders authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the Report, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the orders authorizing their issuance or for any other purpose, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds.

Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

Sources And Uses Of Funds

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

Sources:	
Par Amount	$28,368,741.80
Accrued Interest	52,777.78
Premium	35,474,448.55
Total Sources of Funds	**$63,895,968.13**
Uses:	
Cash Deposit to Escrow Fund	0.77
SLGS	63,474,556.00
Accrued Interest	52,777.78
Cost of Issuance	195,000.00
Underwriter's Discount	172,023.54
Additional Proceeds	1,610.04
Total Sources of Funds	**63,895,968.13**

Amendments

The District may amend the Order without the consent of or notice to any registered owners 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 written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal of or interest, or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of, and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable state law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the District purchases such securities have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S..Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

REGISTERED OWNERS’ REMEDIES

The Order specifies the following events of default: (i) the failure of the Issuer to make payment of the principal of or interest on any of the Bonds when due or (ii) default in any other covenant, agreement or obligation of the Issuer, which failure materially, adversely affects the rights of the Bond 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 Bondowner to the Issuer. Upon the occurrence of an event of default, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds 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 well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of government immunity, and by general principles of equity which permit the exercise of judicial discretion.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Bond 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 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 CIBs within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the the payable 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

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 Direct or Indirect 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. The CIBs are being issued in fully registered form in integral multiples of $5,000 of principal. The CABs will be issued as fully registered bonds in denominations of $5,000 representing the total amount of principal, plus the initial premium, if any, therefor and accreted interest payable upon maturity (the "Maturity Value"), or any integral multiple thereof.

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank, a trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

In the event the Book-Entry-Only System is discontinued, the Bonds will be printed and delivered to the beneficial owners therof, and thereafter, may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated corporate 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the 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 aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Limitation On Transfer Of Bonds

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters 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. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on February 7, 2004 under Chapter 45, Texas Education Code.

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

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

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO DESOTO INDEPENDENT SCHOOL DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the Dallas County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of the various County political subdivisions of the applicable County.

The District's taxes are collected by the Dallas County Appraisal District.

The District does not grant Freeport exemption.

Split payments are not permitted.

Discounts are not permitted.

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.

Date	Cumulative Penalty	Cumulative Interest (b)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27(a)	6	33

(a) Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.
(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed limitations on social gatherings of more than 10 people and temporarily closed school districts throughout the state through April 3, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. On March 31, 2020, the Governor issued Executive Order GA-14 extending school closures until May 4, 2020. On April 17, 2020, the Governor issued Executive Orders GA-15, GA-16 and GA-17 extending school closures through the remainder of the 2019-2020 school year and, among other things, providing for the strategic reopening of select businesses. In public statements, the Commissioner of the TEA has indicated that the state will continue to evaluate the need for further extensions of school closures. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools. The full text of each of the Governor's executive orders can be accessed via the following website: https://lrl.texas.gov/legeLeaders/governors/displayDocs.cfm?govdoctypeID=5&governorID=45.

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

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

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

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

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Overview

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

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

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

Local Funding for School Districts

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

State Compression Percentage

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

Maximum Compressed Tax Rate

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

Tier One Tax Rate

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

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

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

Tier Two

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

Accordingly, the increase in the guaranteed yield from $31.95 per Copper Penny per student in WADA for the 2018-2019 school year to $49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of $0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately $0.138 per $100 taxable value for the 2019-2020 school year.

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

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

The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

Tax Rate and Funding Equity

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

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.
Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023- 2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021- 2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

EMPLOYEES RETIREMENT PLAN

The District's employees participate in a retirement plan with the State of Texas; the Plan is administered by the Teacher Retirement System of Texas. The District has no pension fund expenditures or liabilities.

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.

RATINGS

Standard & Poor's Ratings Service, a Standard & Poor's Financial Services LLC business ("S&P"), assigned their municipal rating of "AAA" to the Bonds based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". An explanation of the significance of any rating may be obtained from the rating agency. The unenhanced, underlying rating on the Bonds, together with the District's tax-supported indebtedness, is affirmed as "A-" (Negative Outlook) by S&P.

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond

Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except under the subcaptions "Payment Record", "Permanent School Fund Guarantee", "Yield on Capital Appreciation Bonds", and "Sources and Uses of Funds", "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the sub caption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS (first paragraph only)", "LEGAL MATTERS", "TAX MATTERS", "REGISTRATION AND QUALIFICATIONS OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Kelly Hart & Hallman LLP, Fort Worth, Texas, whose fee is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and the verification report relating to the refunding of the Refunded Bonds, (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith, 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 or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions and public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a produce 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), the Bonds must be rated at least "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds, except for purchases for interest and sinking funds of such entities. (See "RATINGS" herein). Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both state law and the District's investment policies are subject to change. Under Texas 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 is 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; including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (13) or in any other manner and amount provided by law for District deposits or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) 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 (6) 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 (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated 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, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. As an integral part of its investment policy, the District is required to adopt a separate written investment strategy for each of the funds under its control. 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, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), 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 Business Manager and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

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

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

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

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

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

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

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

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from $300 million to $600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a "charter school liquidation fund" for the management of any reclaimed State funds, including, in addition to other potential uses, for the use of deposit of such reclaimed funds to the Charter District Reserve Fund.

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon its staff and external investment consultant, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

See "2011 and 2019 Constitutional Amendments" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 and November 5, 2019 that may affect Distribution Rate decisions.

Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 asset allocation policy the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency), and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

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

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs with respect to those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; development of hostilities in and among nations; cybersecurity issues that affect the securities markets, changes in international trade policies, economic activity and investments, in general, application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

The Total Return Constitutional Amendment provides that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, at the request of the SBOE, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), that the Total Return Constitutional Amendment requires that SBOE expenditures for managing or administering PSF investments, including payments to external investment managers, be paid from appropriations made by the Legislature, but that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 and 2019 Constitutional Amendments" below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF's financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund's Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

On September 16, 2013, the IRS published proposed regulations (the "Proposed IRS Regulations") that, among other things, would enact the IRS Notice. The preamble to the Proposed IRS Regulations provides that issuers may elect to apply the Proposed IRS Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was $23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately $117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the

Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from $118,511,255,268 on August 31, 2018 to $123,509,204,770 on August 31, 2019 (but at such date the IRS Limit was lower, $117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the 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 February 29, 2020, the Charter District Reserve Fund contained $35,183,564, which represented approximately 1.49% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Infectious Disease Outbreak

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

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

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

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

TEA Continuity of Operations

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

Impact of COVID-19 on School Districts and Charter Districts

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, PSF management is of the view that scheduled bond payments for school districts for the 2020 calendar year are unlikely to be affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding, among other matters, the closure of schools, and TEA has established waivers for payment to school districts and charter districts, as such payments are in large part based on school attendance. Those waivers are intended to provide continued funding during the period of closure, although certain of the waivers require schools to provide on-line or at home curriculum in order to benefit from waivers. Reference is made to "Charter School Risk Factors," herein for a description of unique circumstances that pertain to the funding of charter districts.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

[2] At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately $13.4 million, $216.7 million, $3,640.2 million, $7.5 million, and $4,457.3 million, respectively, and market values of approximately $3,198.2 million, $619.7 million, $3,927.6 million, $1.3 million, and $4,457.3 million, respectively. At February 29, 2020, the PSF had a book value of $35,908,691,818 and a market value of $46,992,040,588. February 29, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

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

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

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

Permanent School Fund Guaranteed Bonds by Category[1]

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

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

(2) At February 29, 2020 (based on unaudited data, which is subject to adjustment), there were $87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating $85,321,228,251 in principal amount and 54 charter district issues, aggregating $2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was $4,551,091,422 (based on unaudited data, which is subject to adjustment).

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

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

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

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

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

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

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

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

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

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

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

2011 and 2019 Constitutional Amendments

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

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

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

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

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5.

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site: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.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by Stifel on behalf of the District relating to (a) computation of the sufficiency of the anticipated receipts from the Defeasance Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the Refunded Bonds, and (b) computation of the yields on Defeasance Securities and the Bonds was verified by Ritz & Associates PA, certified public accountants. Such computations were based solely on assumptions and information provided by Ritz & Associates PA, on behalf of the District.

Ritz & Associates PA, has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax-exempt status of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

FINANCIAL ADVISOR

Stifel is employed as Financial Advisor (the "Financial Advisor") to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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.

USE OF AUDITED FINANCIAL STATEMENTS

Weaver and Tidwell, L.L.P., Dallas, Texas the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Weaver and Tidwell, L.L.P., Dallas, Texas also has not performed any procedures relating to this Official Statement.

LITIGATION

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and in Appendix D, which is the District's annual audited financial report. The District will update and provide the annual financial information appearing in Appendix A tables described in the preceding sentence within six months after the end of each fiscal year ending in and after 2020 and, if not submitted as part of the annual financial information, the District will provide its audited annual financial report when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is June 30. Accordingly, the District must provide updated information included in the Appendix A by the last day of December in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

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

Notices of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Bonds nor the Order provide for debt service reserves, liquidity enhancement, or credit enhancement (except with respect to the Permanent School Fund Guarantee).

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

For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

In March, 2017, Fitch Ratings upgraded the District's underlying credit rating from "AA-" to "AA." No notice was filed pursuant to the Rule describing the upgrade. On February 14, 2019, Fitch Ratings downgraded the District's underlying credit from "AA" to "A+." A notice was timely filed pursuant to the Rule describing the downgrade.

Except as described above, during the last five years, the District has complied in all material respects with all continuing disclosure agreements entered into by it in accordance with the Rule.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriters' Discount of $172,023.54. The Underwriters' obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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 assurances that the forward-looking statements included in this Official Statement would prove to be accurate.

CONCLUDING STATEMENT

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

The Order authorized the Pricing Officer to approve, for and on behalf of the District, the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its use in the reoffering of the Bonds by the Underwriters.

/s/ Dr. D'Andre Weaver, Superintendent
Pricing Officer

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Schedule I

DESOTO INDEPENDENT SCHOOL DISTRICT
Schedules of Bonds to be Refunded

Series To Be Refunded		Principal Amount	Maturities Being Refunded		Principal Amount Being Refunded		Principal Amount Remaining After Refunding
U/L Tax School Bldg & Ref Bonds Series 2006							
Capital Appreciation Bonds	$	241,222.80	2021	$	241,222.80	$	-
	$	210,806.25	2022	$	210,806.25	$	-
	$	61,076.20	2023	$	61,076.20	$	-
			TOTAL	$	513,105.25	$	-
Call date: 07/22/2020							

Series To Be Refunded		Principal Amount	Maturities Being Refunded		Principal Amount Being Refunded		Principal Amount Remaining After Refunding
U/L Tax Ref Bonds Series 2010A							
Premium Capital Appreciation Bonds	$	505,011.85	2021	$	505,011.85	$	-
	$	427,723.60	2022	$	427,723.60	$	-
	$	361,140.95	2023	$	361,140.95	$	-
	$	534,005.50	2024	$	534,005.50	$	-
	$	450,906.70	2025	$	450,906.70	$	-
	$	380,700.60	2026	$	380,700.60	$	-
	$	321,416.70	2027	$	321,416.70	$	-
	$	271,422.30	2028	$	271,422.30	$	-
Call date: 08/15/2020	$	229,141.00	2029	$	229,141.00	$	-
			TOTAL	$	3,481,469.20	$	-

Series To Be Refunded		Principal Amount	Maturities Being Refunded		Principal Amount Being Refunded		Principal Amount Remaining After Refunding
U/L Tax Ref Bonds Series 2010B							
Current Interest Bonds	$	1,375,000.00	2021	$	1,375,000.00	$	-
	$	1,405,000.00	2022	$	1,405,000.00	$	-
	$	1,365,000.00	2023	$	1,365,000.00	$	-
	$	1,695,000.00	2024	$	1,695,000.00	$	-
	$	1,630,000.00	2025	$	1,630,000.00	$	-
	$	1,740,000.00	2026	$	1,740,000.00	$	-
	$	1,665,000.00	2027	$	1,665,000.00	$	-
	$	1,740,000.00	2028	$	1,740,000.00	$	-
	$	1,820,000.00	2029	$	1,820,000.00	$	-
Call date: 08/15/2020	$	7,220,000.00	2030	$	7,220,000.00	$	-
			TOTAL	$	21,655,000.00	$	-

Series To Be Refunded		Principal Amount	Maturities Being Refunded		Principal Amount Being Refunded		Principal Amount Remaining After Refunding
U/L Tax Sch Bldg Bonds Series 2012							
	$	957,191.00	2021	$	957,191.00	$	-
Premium Capital Appreciation Bonds	$	924,968.00	2022	$	924,968.00	$	-
Call date: 08/15/2020	$	892,342.50	2023	$	892,342.50	$	-
			TOTAL	$	2,774,501.50	$	-

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Bond Accreted Value Table - SCHEDULE II

DESOTO INDEPENDENT SCHOOL DISTRICT
Unlimited Tax School Refunding Bonds, Series 2020
Dated Date: June 1, 2020   Delivery Date: June 17, 2020
First Coupon Payment: August 15, 2020
Unlimited Tax Refunding Bonds Series 2020

Date	CAB Bond 08/15/2021 0.620%	CAB Bond 08/15/2022 0.710%	CAB Bond 08/15/2023 0.800%	CAB Bond 08/15/2024 0.900%	CAB Bond 08/15/2025 1.000%	CAB Bond 08/15/2026 1.140%
6/17/2020	4,964.15	4,923.95	4,875.35	4,816.60	4,749.10	4,661.75
8/15/2020	4,969.10	4,929.60	4,881.65	4,823.55	4,756.70	4,670.30
2/15/2021	4,984.50	4,947.10	4,901.15	4,845.25	4,780.50	4,696.95
8/15/2021	5,000.00	4,964.65	4,920.75	4,867.10	4,804.40	4,723.70
2/15/2022		4,982.30	4,940.45	4,889.00	4,828.40	4,750.65
8/15/2022		5,000.00	4,960.20	4,911.00	4,852.55	4,777.70
2/15/2023			4,980.05	4,933.10	4,876.85	4,804.95
8/15/2023			5,000.00	4,955.30	4,901.20	4,832.35
2/15/2024				4,977.60	4,925.70	4,859.90
8/15/2024				5,000.00	4,950.35	4,887.60
2/15/2025					4,975.10	4,915.45
8/15/2025					5,000.00	4,943.45
2/15/2026						4,971.65
8/15/2026						5,000.00

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APPENDIX A

FINANCIAL INFORMATION REGARDING
DESOTO INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION FOR THE DISTRICT

ASSESSED VALUATION

2019 Actual Total Valuation	$	4,482,877,020
2019 Net Taxable Valuation	$	3,292,506,215

* Net of the following deductions provided under Article VII of the State Constitution and Tax Abatement

Exemption/Deduction (Tax Year 2019)		Total
Residential Homestead ($25,000)	$	308,013,383
Residential Homestead Over-Age 65/Disabled ($10,000)		109,962,695
Disabled Vets/Survivors (up to $3,000)		93,042,897
Agricultural Use/Productivity		30,936,822
Freeport Exemption		365,165
Pollution Control		61,056
Cap Value Loss		262,242,538
Freeze Value Loss		181,228,318
Exempt Property		204,517,931
Value lost to prorations		0
Total	$	1,190,370,805

VOTED GENERAL OBLIGATION BOND DEBT

Unlimited Tax Bonds				
Current Interest Bonds Outstanding			$	86,915,000
Capital Appreciation Bonds				
Value At Maturity	$	144,680,000		
Value Not Accreted		40,938,831		
Accreted Value			$	103,741,169
Limited Maintenance Tax Debt Outstanding			$	14,655,000
This Issue Dated June 1, 2020			$	28,368,742
Total Unlimited Tax Bonds and Limited Tax Debt Outstanding			$	233,679,910
Less: Interest & Sinking Fund Balance (as of 06/30/2019)				10,313,050
Less: Bonds to be Refunded				28,424,076
Net General Obligation Debt			$	194,942,784

Ratio Net G.O. Debt to Net Taxable Valuation - 5.92%

2019-20 Population Estimate	51,775	Per Capita Net Valuation	$	63,593
2019-20 Enrollment	8,666	Per Capita Actual Valuation	$	86,584
Area (square miles)	22.31	Per Capita Net G.O. Debt	$	3,765

PROPERTY TAX RATES AND COLLECTIONS

Tax Year	Net Taxable Valuation	Tax Rate	% Collections Current (1)	% Collections Total (1)	F/Y Ended	Source
2014	$ 2,162,554,365	1.4700	97.60	99.16	06/30/15	(2)
2015	2,230,583,033	1.4600	97.93	97.93	06/30/16	(2)
2016	2,479,192,909	1.4600	98.64	98.64	06/30/17	(2)
2017	2,793,079,969	1.4900	98.90	98.90	06/30/18	(2)
2018	3,028,230,332	1.4900	97.46	98.19	06/30/19	(2)
	Five Year Average		**98.11**	**98.56**		
2019	$ 3,292,506,215	$1.52835	(in process of collection)		06/30/20	(2)

(1) Delinquent tax collections are allocated to the respective years in which the taxes are levied.

(2) District Tax Office dated 07/19/2019 and Texas Municipal Report Dated 12/17/2019

TAX RATE DISTRIBUTION

	Tax Year	2019	2018	2017	2016	2015
Local Maintenance		$1.06835	$1.1700	$1.1700	$1.1700	$1.1700
Interest & Sinking		0.46000	0.3200	0.3200	0.2900	0.2900
	Total	**$1.52835**	**$1.4900**	**$1.4900**	**$1.4600**	**$1.4600**

	2019	PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS	
Name of Taxpayer	**Type of Property**	**Assessed Valuation**	**% A.V.**
DeSoto Apartments Ltd.	Apartments	$36,352,210	1.23%
Oncor Electricity Delivery	Electric	32,393,820	1.09%
Atlas Huntington Ridge	Apartments	23,250,000	0.78%
Atmos Energy Mid Tex	Gas	19,704,600	0.67%
WRH Properties Inc	Apartments	15,599,890	0.53%
825 Pleasant LLC	Commercial	12,400,000	0.42%
Windsong Dallas LLC	Apartments	12,000,000	0.41%
Maclay Carlin DeSoto 1LTD	Shopping Center	11,617,370	0.39%
Wal-Mart Stors, Inc	Retail	11,600,000	0.39%
Roug Corporation Inc.		10,732,640	0.36%
Total..		$185,650,530	6.27%

	2018	PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS	
Name of Taxpayer	**Type of Property**	**Assessed Valuation**	**% A.V.**
DeSoto Apartments Ltd.	Apartments	$31,992,000	1.06%
Oncor Electricity Delivery	Electric	31,646,580	1.00%
Atlas Huntington Ridge	Apartments	20,967,870	0.66%
Wal-Mart Stors, Inc	Retail	17,070,960	0.54%
WRH Properties Inc	Apartments	15,371,890	0.49%
T DeSoto Town Center LLC	Apartments	15,144,230	0.48%
Windsong Dallas LLC	Apartments	13,000,000	0.41%
Atmos Energy Mid Tex	Gas	12,574,520	0.40%
Maclay Carlin DeSoto 1LTD	Shopping Center	11,617,370	0.37%
825 Pleasant LLC	Commercial	11,332,920	0.36%
Total..		$180,718,340	5.71%

	2017	PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS	
Name of Taxpayer	**Type of Property**	**Assessed Valuation**	**% A.V.**
DeSoto Apartments Ltd.	Apartments	$30,659,000	1.10%
Oncor Electricity Delivery	Electric	29,993,360	1.07%
Wal-Mart Stors, Inc	Retail	20,666,440	0.74%
Atlas Huntington Ridge	Apartments	19,880,890	0.71%
High Street DeSoto LLC	Retail	17,343,440	0.62%
Maclay Carlin DeSoto 1LTD	Shopping Center	17,017,620	0.61%
WRH Properties Inc	Apartments	13,197,590	0.47%
Alliance PJWE LTD PS	Real Estate	12,690,000	0.45%
Atmos Energy Mid Tex	Gas	11,759,620	0.42%
YES Communities	Mobil Home Parks	10,486,270	0.38%
Total..		$183,694,230	6.58%

	Fiscal Years Ending June 30				
	2019	2018	2017	2016	2015
ASSETS:					
Cash and Cash Equivalents	$8,281,213	$6,987,210	$14,298,522	$9,810,489	$16,290,380
Property Taxes - Delinquent	1,533,684	1,302,621	1,335,015	1,366,169	1,372,319
Allowance for uncollectible taxes (Credit)	(538,076)	(450,230)	(566,471)	(136,617)	(137,232)
Receivables from Other Governments	9,487,683	12,612,732	13,486,937	14,264,479	7,793,475
Accrued Interest	273	1,312	1,311	1,013	0
Due from other funds	1,249,891	2,932,553	442,794	105,193	1,454,638
Other Receivables	76,282	62,738	57,993	356,616	58,975
Inventories	15,897	14,968	13,784	14,441	23,804
Deferred Expenditures	9,680	0	0	0	0
Total Assets	**$20,116,527**	**$23,463,904**	**$29,069,885**	**$25,781,783**	**$26,856,359**
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	$929,390	$315,340	$833,884	$897,439	$2,152,530
Payroll ded. and withhold. payable	806,279	1,418,747	951,297	446,727	383,116
Accrued wages payable	7,418,961	7,110,009	7,646,912	7,364,507	6,622,474
Due to other funds	20,513	227,213	15,002	3,735	0
Due to other governments	38,588	38,588	0	0	0
Due to Student Groups	0	0	30,029	30,029	36,071
Interest Payable - Current	11,741	0	0	0	0
Unearned Revenues	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Total Liabilities	**$9,225,472**	**$9,109,897**	**$9,477,124**	**$8,742,437**	**$9,194,191**
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property taxes	**$1,815,844**	**$1,137,223**	**$984,832**	**$1,229,552**	**$1,235,087**
FUND BALANCES:					
Reserved For:					
Investments in Inventory	$15,897	$14,968	$13,784	$14,441	$23,804
Retirement of Long Term Debt	0	0	0	0	0
Prepaid Items	9,680	0	0	0	0
Capital Acquisition and Contractual Obligation	0	0	4,585,364	652,966	0
Unreserved Designated for:	0	0	0	0	0
Construction	0	0	0	0	5,197,140
Unreserved and Undesignated:	0	0	0	0	0
Unassigned Fund Balance	9,049,634	13,201,816	14,008,781	15,142,387	11,206,137
Reported in General Fund	0	0	0	0	0
Reported in Special Revenue Funds	0	0	0	0	0
Total Fund Balances	**$9,075,211**	**$13,216,784**	**$18,607,929**	**$15,809,794**	**$16,427,081**
Total Liabilities & Fund Balances	**$20,116,527**	**$23,463,904**	**$29,069,885**	**$25,781,783**	**$26,856,359**

	Fiscal Years Ending June 30				
	2019	2018	2017	2016	2015
Beginning Fund Balance	**$13,216,784**	**$18,607,929**	**$15,809,794**	**$16,427,081**	**$8,529,533**
REVENUES:					
Local and Intermediate Sources	$36,881,837	$32,982,974	$30,086,731	$27,092,252	$23,303,301
State Program Revenues	49,563,949	53,657,881	55,269,357	57,649,768	52,783,006
Federal Program Revenues	1,526,635	831,659	949,454	1,110,275	854,595
Total Revenues	**$87,972,421**	**$87,472,514**	**$86,305,542**	**$85,852,295**	**$76,940,902**
EXPENDITURES:					
Instruction	$52,331,863	$49,513,199	$48,936,208	$44,491,455	$41,243,840
Instructional Resources & Media services	762,515	755,401	794,934	700,275	840,131
Curriculum & Instructional Staff Development	790,731	1,077,484	1,393,905	1,542,673	1,622,210
Instructional Leadership	2,516,078	2,489,260	2,419,206	2,522,087	3,869,747
School Leadership	6,537,275	5,868,742	5,877,343	5,432,309	4,900,680
Guidance, Counseling and Evaluation Services	3,624,383	3,609,519	4,172,321	3,743,263	3,249,832
Social Work Services	247,034	343,245	338,951	378,864	328,480
Health Services	751,656	931,487	907,714	862,212	828,942
Student Transportation	4,045,034	2,506,104	1,957,442	2,563,530	1,906,120
Food Services	58,443	56,240	2,079	23,408	16,023
Extracurricular Activities	2,608,188	2,829,335	3,022,801	2,439,324	2,400,722
General Administration	4,638,248	4,626,489	4,011,349	4,330,686	3,506,523
Facilities Maintenance & Operations	8,478,963	8,361,748	8,583,541	7,890,257	7,602,799
Security and Monitoring Services	908,888	678,872	702,740	1,193,262	937,187
Data Processing	4,707,360	2,682,435	3,655,482	2,437,307	3,166,299
Community Services	1,121,071	1,261,826	625,667	571,112	331,486
Debt Service:					
Debt Service - Principal on Long Term Debt	704,848	460,000	450,000	375,000	0
Debt Service - Interest on Long Term Debt	376,280	84,450	89,000	93,125	22,431
Debt Service - Bond Issuance Cost and Fees	229,783	0	57,300	0	188,322
Capital Outlay:	0	0	0	0	0
Facilities Acquisition and Construction	115,354	4,585,364	509,485	4,617,918	1,433,810
Intergovernmental:					
Pymnts to Fiscal Agent/Member Districts of SSA	0	0	0	0	0
Other intergovernmental Charges	150,176	132,847	126,972	128,761	121,742
Pymnts to Juvenile Justice Alternative Ed. Prog.	25,230	9,612	25,116	32,754	26,028
Total Expenditures	**$95,729,401**	**$92,863,659**	**$88,659,556**	**$86,369,582**	**$78,543,354**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,756,980)	(5,391,145)	(2,354,014)	(617,287)	(1,602,452)
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	14,655,000	-	-	-	-
Non-Current Loans	-	-	5,152,149	-	9,500,000
Transfers In	-	-	-	-	-
Transfers Out (Use)	(11,039,593)	0	0	0	0
Net change in fund balances	**(4,141,573)**	**(5,391,145)**	**2,798,135**	**(617,287)**	**7,897,548**
Prior period adjustment	0	0	0	0	0
Ending Fund Balance	**$9,075,211**	**$13,216,784**	**$18,607,929**	**15,809,794**	**$16,427,081**

APPENDIX B

ADDITIONAL INFORMATION REGARDING
DESOTO INDEPENDENT SCHOOL DISTRICT

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ADDITIONAL INFORMATION REGARDING

DESOTO INDEPENDENT SCHOOL DISTRICT

DeSoto ISD is a public independent school district serving more than 8,000 students and 1,300 employees. The district is comprised of 15 campuses serving students from early childhood through graduation. A District of Innovation, DeSoto ISD's mission statement is preparing students academically and socially to be problem solvers and productive citizens. The district's 2020 Strategic Plan focuses on individualized learning, quality teachers, equal access and relationships in an effort to provide a holistic and well-rounded educational experience to students and families in DeSoto, Glenn Heights, and Ovilla. For more information about DeSoto ISD, visit www.desotoisd.org

DeSoto ISD graduated its largest class in 2018 totaling over 700 graduates who were awarded more than $14M in scholarships as a class. The 2017-2018 school year also welcomed the district's largest student enrollment population of more than 10,000 students at the start of that school year.

DeSoto ISD Mission Statement: The mission of DeSoto ISD is to prepare each student academically and socially to become problem solvers and productive citizens for a 21st century global society.

Water and Sewer provided by:	City of DeSoto and City of Glenn Heights
Electricity provided by:	Direct Energy, and Hilco
Natural Gas provided by:	Atmos Gas
Telephone service provided by:	AT&T
Bus Services:	DART (Glenn Heights Park and Ride)
Universities and Colleges:	Cedar Valley Community College, Mountain View Community College, University of Texas at Arlington, University of North Texas, Northwood University, Southern Methodist University, Dallas Baptist University, and ITT Technical College

Source: DeSoto ISD

Enrollment Statistics	
Year Ending, 8-31	**Enrollment**
2010	9,045
2011	9,165
2012	8,972
2013	8,899
2014	9,404
2015	9,604
2016	9,740
2017	9,747
2018	9,737
2019	9,416
2020	8,679

As of 01/21/2020

FACILITIES

School	Campus Size (acres)	Grades	Capacity	Current Enrollment
Amber Terrace Discovery & Design Early Childhood Academy	14.28	Pre-K	716	438
Cockrell Hill Elementary	12.00	K-5	581	546
Frank D. Moates Elementary	14.46	K-5	750	610
Northside Elementary	7.00	K-5	553	0
Ruby Young Elementary	7.92	K-5	606	446
Woodridge Elementary	12.00	K-5	700	651
The Meadows Elementary	11.11	K-5	581	551
Katherine Johnson Technology Magnet	12.00	K-5	900	468
East Middle School	29.30	6-8	750	552
West Middle School	22.00	6-8	700	590
Curtistene S. McCowan Middle School	36.00	6-8	1,000	903
DeSoto High School	102.36	9-12	3,950	2,887
DAEP	6.00	2-12	n/a	37
WINGS	n/a	9-12	120	0

ADDITIONAL SITES OWNED BY THE DISTRICT

Name/Location of Site	Size (acres)	Expected Use (what grades)	Expected Student Capacity
Cockrell Hill and Bear Creek Roads	25.17	Unknown	Unknown
Parkerville and Westmoreland Road	55.02	Unknown	Unknown
Uhl Road and Parkerville	46	Unknown	Unknown

PORTABLE CLASSROOMS OWNED BY THE DISTRICT

Campus Location	Number of Classrooms	Will Construction Allow Removal
Woodridge Elementary	2	No
Frank D. Moates Elementary	1	No
Ruby Young Elementary	2	No
East Middle School	5	No
Amber Terrace Elementary	2	No
West Middle School	3	No
Northside Elementary	2	No

EMPLOYMENT OF THE DISTRICT

Teachers………………………………………………………….	555
Administrators………………………………………………….	192
Teacher Aides & Secretaries……………………………………	133
Auxiliary Employees…………………………………………….	216
Total Number of Employees……………………………………..	1,096

PRINCIPAL EMPLOYERS OF THE DISTRICT

Name of Company	Product or Service	Number of Employees
DeSoto ISD	Public Education	1,185
City of DeSoto	City Government	384
DIAB	Aircraft Insulation	325
Solar Turbines, Inc.	Turbine Retrofitting	300
Walmart Distribution	Warehouse	240
Williamsburg Village	Healthcare	210
McGraw-Hill	Publishing	155
Tom Thumb	Grocery - Retail	150

ADDITIONAL INFORMATION REGARDING DALLAS COUNTY and CITY OF DESOTO, TEXAS

Dallas County, located in North Central Texas, is the second most populous county in Texas and the ninth most populous in the United States. Interstate highways 20, 30, 35E, and 635 and U.S. highways 67, 75, 80, and 175 cross the county, in addition to other prominent roads, and the area is also served by several railroad lines, including the Union Pacific, the Burlington Northern Santa Fe, and the Kansas City Southern. Dallas County is comprised of 902 square miles with the City of Dallas being the county seat and largest city. The economy of Dallas County is diverse, with dominant sectors including defense, financial services, information technology, telecommunications and transportation, it also hosts several Fortune 500 companies.

In 2017, the estimated population was 2,618,148 with a growth rate of 1.19% in the past year, with the surrounding metroplex having the largest population increase of any metro area in 2017. A number of museums are located in Dallas County, including the Dallas Museum of Art, the Perot Museum of Nature and Science, the Nasher Sculpture Center, and the Frontiers of Flight Museum. The county also has a plethora of special events, including the famous State Fair of Texas, the Cotton Bowl Classic football game, and the Byron Nelson Golf Classic. The county has tall grasses with pecan and oak trees along streams and mesquite on the prairies. Though the rich soil is the main mineral resource of Dallas County, gravel and sand have been mined from the Trinity floodplain, cement has been made from the local soft limestone, and bricks have been manufactured from the county's clay.

The City of DeSoto is a 21.6 square mile residential suburb located approximately 12 miles south of Dallas bordered by I-35E, I-20, and Highway 67. The City is populated predominately by professional and highly skilled residents. Many City residents are employed in Dallas.

LABOR FORCE STATISTICS FOR DALLAS COUNTY

	2019	2018	2017	2016	2015
Civilian Labor Force	1,419,767	1,376,291	1,344,693	1,319,028	1,280,810
Employed	1,374,768	1,329,408	1,296,363	1,268,070	1,229,214
Unemployed	44,999	46,883	48,330	50,958	51,596

As of November 2019
Source: Labor Market Information Department, Texas Workforce Commission.

Comparative Unemployment Rates

	2019	2018	2017	2016	2015
Dallas County	3.2	3.4	3.6	3.9	4.0
City of DeSoto	4.3	4.5	4.7	5.0	4.9
State of Texas	3.4	3.7	4.1	4.8	4.5
United States of America	3.5	3.7	4.1	4.7	5.1

As of November 2019
Source: Labor Market Information Department, Texas Workforce Commission.

PENSION FUND LIABILITY

The District has no direct liability for pensions. A mandatory contribution of a percentage of gross salary is made by all employees to the Texas Retirement System of Texas. The District is required to deduct and forward the contributions to the State Administered System.

TAX RATE LIMITATIONS

For Debt Service:	Unlimited Tax Bonds - No Limitation (Chapter 45, Tx. Education Code)	
For Local Maintenance:	$1.50 per $100 of Assessed Valuation	(Chapter 45 voted February 7, 2004)

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount		As Of	% Overlap	$ Overlap
Cedar Hill, City of	$ 99,050,000.00	*	04/30/20	0.13%	$ 128,765
Dallas Co.	145,630,000.00	*	04/30/20	1.30%	1,893,190
Dallas Co CCD	135,375,000.00	*	04/30/20	1.30%	1,759,875
Dallas Co Hospital District	640,180,000.00	*	04/30/20	1.30%	8,322,340
Dallas County Schools	27,204,352.00	*	04/30/20	1.30%	353,657
DeSoto, City of	67,870,000.00	*	04/30/20	67.78%	46,002,286
Glenn Heights, City of	14,425,000.00	*	04/30/20	64.37%	9,285,373
Ovilla, City of	4,270,000.00	*	04/30/20	6.35%	271,145
Total Net Overlapping Debt					$ 68,016,631
Desoto ISD	$ 194,942,784.49		05/21/20	100.00%	194,942,784
Total Direct and Overlapping Debt..					$ 262,959,415

* Gross Debt

Direct and Overlapping Debt to Net Taxable Valuation	7.99%
Direct and Overlapping Debt to Actual Total Valuation	5.87%
Per Capita Direct and Overlapping Debt	$5,079

2019 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Cedar Hill, City of	$ 0.697028
Dallas Co.	$ 0.243100
Dallas Co CCD	$ 0.124000
Dallas Co Hospital District	$ 0.269500
Dallas County Schools	$ 0.010000
DeSoto, City of	$ 0.701554
Glenn Heights, City of	$ 0.853352
Ovilla, City of	$ 0.660000

CAPITAL LEASES

On July 1, 2019, the District entered into a capital lease for 27 school buses in the amount of $2,779,237.

page 57; Note 17 in 2019 Audit

NOTES PAYABLE

06/28/2017	10/01/2018	09/01/2018
Energy Efficiency Upgrades	Computers (001-6680292-003)	Computers (001-6680292-004)
2.94%		
$433,532.20 Annually	$98,744.98	$308,269.74
10/15/2032	10/01/2020	08/31/2021
Maintenance & Operations Funds	Maintenance & Operations Funds	Maintenance & Operations Funds
5,635,918.60 (amount) as of 1/21/2020 (date)	$98,744.98 (amount) as of 1/21/2020 (date)	$516,539.48 (amount) as of 1/21/2020 (date)

PUBLIC FACILITY CORPORATION

NONE

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Total Tax Roll for Tax Years - Per Comptroller's Report

	Fiscal Years Ending June 30,				
Property Use Category	**2019**	**2018**	**2017**	**2016**	**2015**
Single-Family Residential	$ 3,459,036,580	$ 3,129,093,420	$ 2,667,804,650	$ 2,431,978,810	$ 2,082,963,050
Multi-Family Residential	283,351,000	256,367,780	227,493,610	195,224,360	189,116,490
Vacant Lots/Tracts	82,987,690	70,572,630	63,456,570	60,521,470	58,136,310
Acreage (Land Only)	31,330,090	27,575,690	445,525	429,683	408,237
Farm and Ranch Improvements	488,770	796,530	904,810	915,671	1,300,340
Commercial and Industrial	453,682,300	417,323,770	259,358,667	250,667,790	241,013,800
Non producing minerals	-	-	-	-	-
Residential Inventory	200	108,830	285,330	318,930	402,930
Business, Tangible	76,962,120	74,937,100	73,298,520	71,913,460	73,976,630
Other, Tangible	-	-	-	-	-
Mobile Homes	12,050,880	12,009,520	11,770,060	10,914,500	10,351,290
Special/Real Inventory	12,445,340	12,154,350	11,921,490	12,206,510	11,370,150
Utilities	70,542,050	63,020,920	59,061,520	57,346,310	56,078,190
Total Assessed Valuation	**$ 4,482,877,020**	**$ 4,063,960,540**	**$ 3,375,800,752**	**$ 3,092,437,494**	**$ 2,725,117,417**
Less Exemptions:					
Residential Homestead	$ 308,013,383	$ 305,488,592	$ 295,052,956	$ 293,959,944	$ 286,286,169
Disabled/Deceased Veterans	93,042,897	66,416,098	44,239,873	47,147,551	32,460,670
Over-65 and/or disabled	109,962,695	112,257,023	41,519,468	40,219,237	36,225,530
Freeport Loss	365,165	240,613	86,809	267,470	-
Cap Value Loss	262,242,538	227,879,272	98,808,857	113,811,534	35,914,911
Freeze Value Loss	181,228,318	126,863,221	98,765,425	112,267,397	95,425,890
Exempt	204,517,931	169,414,630	-	-	-
Pollution Control	61,056	27,922	30,467	33,952	1,282
Agriculture Use/Productivity	30,936,822	27,142,837	4,216,928	5,537,500	8,219,932
Total Exemptions	**$ 1,190,370,805**	**$ 1,035,730,208**	**$ 582,720,783**	**$ 613,244,585**	**$ 494,534,384**
Taxable Assessed Valuation (1)	**$ 3,292,506,215**	**$ 3,028,230,332**	**$ 2,793,079,969**	**$ 2,479,192,909**	**$ 2,230,583,033**

(1) **Includes Frozen values**

Please note the 2019 values are preliminary, subject to change.

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

				Percent of Total Tax Roll for Tax Years	
Property Use Category	**2019**	**2018**	**2017**	**2016**	**2015**
Single-Family Residential	77.16%	77.00%	79.03%	78.64%	76.44%
Multi-Family Residential	6.32%	6.31%	6.74%	6.31%	6.94%
Vacant Lots/Tracts	1.85%	1.74%	1.88%	1.96%	2.13%
Acreage (Land Only)	0.70%	0.68%	0.01%	0.01%	0.01%
Farm and Ranch Improvements	0.01%	0.02%	0.03%	0.03%	0.05%
Commercial and Industrial	10.12%	10.27%	7.68%	8.11%	8.84%
Non producing minerals	0.00%	0.00%	0.00%	0.00%	0.00%
Residential Inventory	0.00%	0.00%	0.01%	0.01%	0.01%
Business, Tangible	1.72%	1.84%	2.17%	2.33%	2.71%
Other, Tangible	0.00%	0.00%	0.00%	0.00%	0.00%
Mobile Homes	0.27%	0.30%	0.35%	0.35%	0.38%
Special/Real Inventory	0.28%	0.30%	0.35%	0.39%	0.42%
Utilities	1.57%	1.55%	1.87%	2.04%	2.06%
	100.00%	100.00%	100.12%	100.18%	100.00%

Note: Totals may not equal 100% due to rounding

DESOTO INDEPENDENT SCHOOL DISTRICT
OUTSTANDING AND NEW DEBT SERVICE REQUIREMENTS

Debt Service Requirements of the Refunding Series 2020

Fiscal Year Ended 6/30	Outstanding Debt Service Requirements	Less: Bonds to be Refunded	Principal	Interest	Total	Total Debt Service Requirements
2020	11,587,900.69	-	-	-	-	11,587,900.69
2021	15,271,406.25	866,200.00	-	837,847.22	837,847.22	15,243,053.47
2022	16,079,331.25	8,448,700.00	2,559,890.10	4,762,609.90	7,322,500.00	14,953,131.25
2023	16,066,056.25	8,428,100.00	1,201,903.25	6,100,596.75	7,302,500.00	14,940,456.25
2024	16,023,031.25	7,077,700.00	441,191.35	5,511,308.65	5,952,500.00	14,897,831.25
2025	15,319,056.25	7,991,500.00	247,704.80	6,619,795.20	6,867,500.00	14,195,056.25
2026	15,337,781.25	7,860,000.00	113,997.00	6,623,503.00	6,737,500.00	14,215,281.25
2027	15,337,101.25	7,902,600.00	54,055.30	6,723,444.70	6,777,500.00	14,212,001.25
2028	15,303,106.25	7,759,500.00	5,590,000.00	1,047,750.00	6,637,750.00	14,181,356.25
2029	15,311,456.25	7,766,400.00	5,880,000.00	761,000.00	6,641,000.00	14,186,056.25
2030	14,705,381.25	7,775,200.00	6,190,000.00	459,250.00	6,649,250.00	13,579,431.25
2031	14,692,056.25	7,364,400.00	6,090,000.00	152,250.00	6,242,250.00	13,569,906.25
2032	11,081,281.25	-	-	-	-	11,081,281.25
2033	10,927,271.25	-	-	-	-	10,927,271.25
2034	10,792,168.75	-	-	-	-	10,792,168.75
2035	10,646,718.75	-	-	-	-	10,646,718.75
2036	10,494,706.25	-	-	-	-	10,494,706.25
2037	10,349,850.00	-	-	-	-	10,349,850.00
2038	12,424,218.75	-	-	-	-	12,424,218.75
2039	8,224,884.38	-	-	-	-	8,224,884.38
2040	6,027,500.00	-	-	-	-	6,027,500.00
2041	4,694,999.99	-	-	-	-	4,694,999.99
TOTAL	**$276,697,263.81**	**$ 79,240,300.00**	**$28,368,741.80**	**$39,599,355.42**	**$67,968,097.22**	**$265,425,061.03**

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING BONDS

Projected Average of payments post refunding 2020-2024		$14,324,474.58
less: projected EDA and IFA payments from the State		426,430.00
District's Net Requirement		$13,898,044.58
Based on Projected 2019 Taxable Valuation of		$3,043,959,261
$0.4753	Tax rate w/ tax collections of 99.00%	$14,324,474.58

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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(Date of Delivery of Bonds)

Proposed Form of Opinion of Bond Counsel

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

DESOTO INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2020

IN THE AGGREGATE PRINCIPAL AMOUNT OF $28,368,741.80

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

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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

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

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

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

Respectfully,

APPENDIX D

The information contained in this Appendix has been reproduced from the DeSoto Independent School District Annual Financial Report (the "Report") for the Fiscal Year Ended June 30, 2019.

THE INFORMATION PRESENTED REPRESENTS ONLY A PART OF THE REPORT AND DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE DISTRICT'S FINANCIAL CONDITION. REFERENCE IS MADE TO THE COMPLETE REPORT FOR ADDITIONAL INFORMATION

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DeSoto Independent School District

Annual Financial Report
For the Fiscal Year Ended June 30, 2019

weaver
Assurance • Tax • Advisory

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DeSoto Independent School District
Annual Financial Report
For the Fiscal Year Ended June 30, 2019
Table of Contents

Certificate of Board

DeSoto Independent School District	Dallas	057-906
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ___✓___ approved _______ disapproved For the fiscal year ended June 30, 2019 at a meeting of the Board of Trustees of such school district on the 18th day of November, 2019.

Kathy J Goad
Signature of Board Secretary

Karen Daniel
Signature of Board President

Financial Section

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Independent Auditor's Report

To the Board of Trustees
DeSoto Independent School District
DeSoto, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Weaver and Tidwell, L.L.P.
2300 North Field Street, Suite 1000 | Dallas, Texas 75201
Main: 972.490.1970 | Fax:972.702.8321
CPAs AND ADVISORS | WEAVER.COM

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information and Schedule of Required Responses to Selected School FIRST Indicators, as 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Board of Directors
DeSoto Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 13, 2019 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 13, 2019

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Management's Discussion and Analysis

As management of DeSoto Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 14.

Financial Highlights

- The District's total net position at June 30, 2019 was ($78,587,493) (negative net position). Of this amount, ($112,176,750), represents negative unrestricted net position.
- In The District's total net position decreased by $8,509,367 during the fiscal year.
- As of June 30, 2019, the District's governmental funds reported combined ending fund balances of $20,817,469. Approximately 43% of this total amount, $9,049,634, is unassigned and available for use within the District's fund balance policies.
- At the end of the current fiscal period, unassigned fund balance for the general fund was $9,049,634 or 9% of the total general fund expenditures.

Overview of the Financial Statements

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 (Exhibits A-1 and B-1). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. 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 28) 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. The 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 8. 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, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the period while the statement of activities includes all revenues and expenses generated by the District's operations during the period. These apply the accrual basis of accounting (the basis used by private sector companies).

All of the current period'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 and deferred outflows of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources 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 deferred outflows of resources; less liabilities and deferred inflows of resources) 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.

The government-wide financial statements of the District are primarily supported by taxes and intergovernmental revenues. The governmental activities of the District include: instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration.

Reporting the District's Most Significant Funds

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

- *Proprietary funds* – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the statement of net position and the statement of activities. The internal service fund reports the District's self-insurance workers compensation program that provides services for the District's other programs and activities.

- *Fiduciary funds* – Fiduciary funds are used to account for resources held for the benefit of students and for a scholarship fund. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

Government-Wide Financial Analysis

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Negative net position of the District's governmental activities decreased from ($70,078,126) to ($78,587,493). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was ($112,176,750) at June 30, 2019.

Table I
DeSoto Independent School District
Net Position

	Governmental Activities June 30, 2019	Governmental Activities June 30, 2018
Current and other assets	$ 34,441,113	$ 32,994,256
Capital assets, net	181,153,615	183,382,926
Total assets	215,594,728	216,377,182
Deferred outflows of resources	27,818,146	16,389,744
Long-term liabilities	290,334,868	271,152,096
Other liabilities	12,980,060	14,548,782
Total liabilities	303,314,928	285,700,878
Deferred inflows of resources	18,685,439	17,144,174
Net position		
Net investment in capital assets	27,557,504	37,981,783
Restricted	6,031,753	969,021
Unrestricted	(112,176,750)	(109,028,930)
Total net position	$ (78,587,493)	$ (70,078,126)

Table II
DeSoto Independent School District
Changes in Net Position

		Governmental Activities Year Ended June 30, 2019		Governmental Activities Year Ended June 30, 2018
Revenues				
Program revenues:				
Charges for services	$	1,692,861	$	1,870,914
Operating grants and contributions		31,253,259		9,957,721
General revenues:				
Maintenance and operations taxes		35,346,358		31,989,503
Debt service taxes		9,677,665		8,749,337
State aid		45,838,998		49,914,266
Grants and contributions not restricted		12,304		25,419
Investment earnings		348,331		500,462
Miscellaneous		871,087		225,464
Total revenues		125,040,863		103,233,086
Expenses				
Instruction, curriculum and media services		69,554,138		44,863,264
Instructional and school leadership		12,632,785		7,684,305
Student support services		10,570,100		7,039,559
Child nutrition		7,107,547		6,958,196
Extracurricular activities		3,565,402		3,034,528
General administration		5,223,957		4,077,332
Plant maintenance, security, and data processing		13,149,337		11,649,689
Community services		2,956,108		2,233,151
Debt service		8,494,575		10,450,864
Facilities acquisition and construction		120,875		47,431
Juvenile Justice Alternative Education Program		25,230		9,612
Other intergovernmental charges		150,176		132,847
Total expenses		133,550,230		98,180,778
Increase (decrease) in net position		(8,509,367)		5,052,308
Net position at beginning of year before restatement		(70,078,126)		(15,696,710)
Change in accounting principle		-		(59,433,724)
Net position at end of year	$	(78,587,493)	$	(70,078,126)

The District showed an increase in revenue of 21.1%. The two major sources of the increase relate to the increase in operating grants and contributions which increased $21.3 million.

The debt service fund received a contribution of $8.4 million from the general fund out of fund balance reserves in order to pay for the August 2018 bonded debt's principal and interest payment. This was necessary because the District reduced the interest and sinking tax rate 14 pennies in fiscal year 2015 as part of a tax ratification election that raised the maintenance and operating rate an additional 13 pennies to the maximum allowed by state law. The extra state and local funds raised by the higher maintenance and operating rate and subsequent reduction in interest and sinking tax rate necessitated this action.

The second source of the revenue increase relates to the issuance of Maintenance Tax Notes for $14.7 million that the District needed to fund current operations and manage the cash flow variances caused by the timing of state and local funds. The notes will be paid back over the next three fiscal years.

The only other change in revenue to note is the increase in the general fund's tax revenues of $3.36 million with a subsequent decrease of $4.08 in state aid. As the District's taxable value wealth increases state funding decreases proportionately. The additional decrease in state aid was due to a decrease of students in average daily attendance of 304 or 3.4% as the District continues to experience a decline in enrollment.

The District's maintenance and operations tax rate remained the same at $1.17 and the debt service tax rate increased from $0.29 to $0.32 per $100 valuation.

The cost of all governmental activities for the current fiscal year was $133,550,230. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only $45,024,023 because some of the costs were paid by those who directly benefited from the programs ($1,692,861) or by other governments and organizations that subsidized certain programs with grants and contributions ($31,253,259) or by State equalization funding ($45,838,998).

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of $20,817,469, which is $2,300,632 more than last year's total of $18,516,837. Included in this period's total change in fund balance is a decrease of $4,141,573 in the District's general fund and an increase of $6,331,899 in the District's debt service fund. The capital projects fund decreased $35,475 due to construction payments on the new elementary school.

The District amends the budget as needed throughout the year. The final budgeted expenditures increased by $8,282,596 primarily due as follows:

- $2.2 million in Instruction for summer school, substitutes, and IB program.
- $1.4 million in Student Transportation for actual cost of first year operations taken on by the district after the dissolution of Dallas County Schools Transportation services.
- $1 million increase in General Administration for increase to legal budget and creation of new cabinet positions.
- $1.9 million in Data Processing services for a district-wide upgrade to wireless access points and infrastructure upgrades.
- $1 million in Debt Service for first year repayment on Maintenance Note left out of original budget and issuance and subsequent repayment of a $6 million short term note used for cash flow issues.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019, the District had $181,153,615 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of $2,229,311, or 1.2%, more than the prior year.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At June 30, 2019, the District had $224,755,650 in long-term debt outstanding (including accreted interest on capital appreciation bonds) versus $217,648,878 last year – an increase of $7,106,772.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District's maintenance and operations (M&O) tax rate will decrease from $1.17 to $1.06835 and the debt service (I&S) tax rate will increase from $0.32 to $0.46 per $100 of taxable valuation for a total tax rate increase of $0.03835. The Texas legislature passed major tax reform this passed session that accounts for the decline in the M&O tax rate to the new cap for districts that were at $1.17. The I&S tax rate increased to the level needed to raise enough tax revenue to service the August 2020 debt payment. The loss in general fund tax revenues from the new tax compressed rate will be made up by the state in its increase to the foundation program revenue for each school district.

The District expects a 7.7% decrease in average daily attendance during the 2019-2020 school year. Property values are expected to increase 10%.

Major budget reductions, including a Reduction in Force of approximately 200 positions, had to be put in place when developing the budget for the 2020 fiscal year. The District’s general fund had to issue $14.65 million of maintenance tax notes in fiscal year 2019 to meet its obligations and the impact on the 2020 fiscal year budget saw an increase in debt service of $5.6 million over the prior year’s original budget. The final actual fund balance decreased $4.1 million, which also put added pressures on the District to reduce its expenditure budget going forward.

As a result of these measures, the District’s general fund original budget for revenues exceeds budgeted expenditures for fiscal year 2020 by $3.8 million.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at DeSoto Independent School District, 200 East Beltline Road, DeSoto, Texas 75115; (972) 223-6666.

Basic Financial Statements

DeSoto Independent School District **Exhibit A-1**

Statement of Net Position

June 30, 2019

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 22,001,593
1220	Property taxes receivable (delinquent)	1,975,742
1230	Allowance for uncollectible taxes	(722,871)
1240	Due from other governments	11,084,517
1250	Accrued interest	273
1290	Other receivables, net	76,282
1310	Inventories	15,897
1410	Prepaids	9,680
	Capital assets	
1510	Land	8,174,624
1520	Buildings, net	164,379,226
1530	Furniture and equipment, net	8,599,765
1000	Total assets	215,594,728
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred loss on bond refundings	6,734,050
1705	Deferred outflows of resources - pensions	18,131,751
1706	Deferred outflows of resources - OPEB	2,952,345
1700	Total deferred outflows of resources	27,818,146
	LIABILITIES	
2110	Accounts payable	1,355,831
2140	Accrued interest payable	1,452,965
2150	Payroll deductions and withholdings	806,279
2160	Accrued wages payable	7,738,057
2180	Due to other governments	788,939
2200	Accrued expenses	195,788
2300	Unearned revenue	642,201
	Noncurrent liabilities	
2501	Due within one year	13,471,061
2502	Due in more than one year	211,325,062
2540	Net pension liability (District's share)	30,689,299
2545	Net OPEB liability (District's share)	34,849,446
2000	Total liabilities	303,314,928
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows of resources - pensions	3,245,892
2606	Deferred inflows of resources - OPEB	15,439,547
2600	Total deferred inflows of resources	18,685,439
	NET POSITION	
3200	Net investment in capital assets	27,557,504
3820	Restricted for federal and state programs	1,095,753
3850	Restricted for debt service	4,936,000
3900	Unrestricted	(112,176,750)
3000	**TOTAL NET POSITION**	$ (78,587,493)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District

Exhibit B-1

Statement of Activities
For the Year Ended June 30, 2019

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position 6 Primary Government Governmental Activities
	PRIMARY GOVERNMENT				
	Governmental activities:				
11	Instruction	$ 67,107,927	$ 304,295	$ 12,208,819	$ (54,594,813)
12	Instructional resources and media	996,846	-	127,444	(869,402)
13	Curriculum and staff development	1,449,365	-	470,042	(979,323)
21	Instructional leadership	5,016,267	-	2,138,442	(2,877,825)
23	School leadership	7,616,518	-	862,327	(6,754,191)
31	Guidance, counseling and evaluation	5,328,221	-	1,353,840	(3,974,381)
32	Social work services	247,660	-	30,781	(216,879)
33	Health services	1,179,404	-	93,135	(1,086,269)
34	Student transportation	3,814,815	-	522,854	(3,291,961)
35	Food services	7,107,547	1,001,466	5,740,758	(365,323)
36	Cocurricular/extracurricular activities	3,565,402	241,744	862,579	(2,461,079)
41	General administration	5,223,957	-	580,860	(4,643,097)
51	Plant maintenance and operations	8,770,286	145,356	1,050,598	(7,574,332)
52	Security and monitoring services	1,181,167	-	112,617	(1,068,550)
53	Data processing services	3,197,884	-	587,877	(2,610,007)
61	Community services	2,956,108	-	1,746,186	(1,209,922)
72	Debt service - interest on long term debt	8,176,344	-	2,728,073	(5,448,271)
73	Debt service - bond issuance cost and fees	318,231	-	-	(318,231)
81	Facilities acquisition and construction	120,875	-	-	(120,875)
	Payments to Juvenile Justice				
95	Alternative Education Program	25,230	-	-	(25,230)
99	Other intergovernmental charges	150,176	-	36,027	(114,149)
TP	**TOTAL PRIMARY GOVERNMENT**	$ 133,550,230	$ 1,692,861	$ 31,253,259	$ (100,604,110)

	General revenues	
	General revenues	
	Taxes	
MT	Property taxes, levied for general purposes	$ 35,346,358
DT	Property taxes, levied for debt service	9,677,665
SF	State aid - formula grants	45,838,998
GC	Grants and contributions not restricted	12,304
IE	Investment earnings	348,331
MI	Miscellaneous local and intermediate revenue	871,087
TR	Total general revenues	92,094,743
CN	Change in net position	(8,509,367)
NB	Net position (deficit) - beginning	(70,078,126)
NE	**NET POSITION (DEFICIT) - ENDING**	$ (78,587,493)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District
Balance Sheet
Governmental Funds
June 30, 2019

Data Control Codes		10 General Fund	50 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 8,281,213	$ 11,016,414
1220	Property taxes - delinquent	1,533,684	442,058
1230	Allowance for uncollectible taxes (credit)	(538,076)	(184,795)
1240	Due from other governments	9,487,683	-
1250	Accrued interest	273	-
1260	Due from other funds	1,249,891	20,513
1290	Other receivables	76,282	-
1310	Inventories	15,897	-
1410	Prepaids	9,680	-
1000	Total assets	$ 20,116,527	$ 11,294,190
	LIABILITIES		
2110	Accounts payable	$ 929,390	$ 11,276
2140	Interest payable - current	11,741	6,277
2150	Payroll deductions and withholdings payable	806,279	-
2160	Accrued wages payable	7,418,961	-
2170	Due to other funds	20,513	-
2180	Due to other governments	38,588	741,144
2300	Unearned revenues	-	-
2000	Total liabilities	9,225,472	758,697
	DEFERRED INFLOWS OF RESOURCES		
2601	Unavailable revenue	1,815,844	222,443
2600	Total deferred inflows of resources	1,815,844	222,443
	FUND BALANCES		
	Nonspendable		
3410	Inventories	15,897	-
3430	Prepaids	9,680	-
	Restricted		
3450	Federal or state funds grant restriction	-	-
3480	Retirement of long-term debt	-	10,313,050
	Committed		
3545	Other committed fund balance	-	-
3600	Unassigned	9,049,634	-
3000	Total fund balances	9,075,211	10,313,050
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 20,116,527	$ 11,294,190

The Notes to the Basic Financial Statements are an integral part of this statement.

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
$ -	$ 2,467,934	$ 21,765,561
-	-	1,975,742
-	-	(722,871)
-	1,596,834	11,084,517
-	-	273
-	-	1,270,404
-	-	76,282
-	-	15,897
-	-	9,680
$ -	$ 4,064,768	$ 35,475,485
$ -	$ 415,165	$ 1,355,831
-	-	18,018
-	-	806,279
-	319,096	7,738,057
-	1,249,891	1,270,404
-	9,207	788,939
-	642,201	642,201
-	2,635,560	12,619,729
-	-	2,038,287
-	-	2,038,287
-	-	15,897
-	-	9,680
-	1,095,753	1,095,753
-	-	10,313,050
-	333,455	333,455
-	-	9,049,634
-	1,429,208	20,817,469
$ -	$ 4,064,768	$ 35,475,485

DeSoto Independent School District

Exhibit C-2

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	$	20,817,469
The District uses an internal service fund to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		40,244
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.		279,037,365
Accumulated depreciation is not reported in the fund financial statements.		(97,883,750)
Bonds and notes payable are not reported in the fund financial statements.		(147,773,904)
Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.		(68,592,047)
Property tax revenue recorded as unavailable revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.		2,038,287
Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.		(1,434,947)
Bond premiums are not recognized in the fund financial statements.		(8,389,699)
Compensated absences are not recognized in the fund financial statements.		(40,473)
Deferred charges on bond refundings are not recognized in the fund financial statements.		6,734,050
Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability in the amount of $30,689,299, deferred inflows of resources related to TRS in the amount of $3,245,892, and deferred outflows of resources related to TRS in the amount of $18,131,751. This results in a net decrease in net position.		(15,803,440)
Included in the items related to debt is the recognition of the District's proportionate share of the TRS-Care net OPEB liability ($34,849,446) and a deferred inflow of resources ($15,439,547) and a deferred outflow of resources ($2,952,345). This results in a net decrease in net position.		(47,336,648)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	$	(78,587,493)

The Notes to the Basic Financial Statements are an integral part of this statement.

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DeSoto Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2019

Data Control Codes		10 General Fund	50 Debt Service Fund
	REVENUES		
5700	Total local and intermediate sources	$ 36,881,837	$ 9,780,156
5800	State program revenues	49,563,949	2,565,642
5900	Federal program revenues	1,526,635	-
5020	Total revenues	87,972,421	12,345,798
	EXPENDITURES		
	Current		
0011	Instruction	52,331,863	-
0012	Instructional resources and media services	762,515	-
0013	Curriculum and instructional staff development	790,731	-
0021	Instructional leadership	2,516,078	-
0023	School leadership	6,537,275	-
0031	Guidance, counseling and evaluation services	3,624,383	-
0032	Social work services	247,034	-
0033	Health services	751,656	-
0034	Student (pupil) transportation	4,045,034	-
0035	Food services	58,443	-
0036	Extracurricular activities	2,608,188	-
0041	General administration	4,638,248	-
0051	Facilities maintenance and operations	8,478,963	-
0052	Security and monitoring services	908,888	-
0053	Data processing services	4,707,360	-
0061	Community Services	1,121,071	-
	Debt service		
0071	Principal on long term debt	704,848	10,710,000
0072	Interest on long term debt	376,280	3,724,331
0073	Bond issuance cost and fees	229,783	88,448
	Capital outlay		
0081	Facilities acquisition and construction	115,354	-
	Intergovernmental:		
0095	Payments to Juvenile Justice Alternative Education Program	25,230	-
0099	Other intergovernmental charges	150,176	-
6030	Total expenditures	95,729,401	14,522,779
	Excess (deficiency) of revenues		
1100	over (under) expenditures	(7,756,980)	(2,176,981)
	OTHER FINANCING SOURCES (USES)		
7901	Refunding bonds issued	-	2,690,000
7914	Loan proceeds	14,655,000	-
7916	Premium or discount on issuance of bonds	-	312,103
8949	Payment to escrow agent	-	(2,892,223)
7915	Transfers in	-	8,399,000
8911	Transfers out	(11,039,593)	-
7080	Total other financing sources (uses)	3,615,407	8,508,880
1200	Net change in fund balances	(4,141,573)	6,331,899
100	Fund balance - beginning	13,216,784	3,981,151
3000	**FUND BALANCE - ENDING**	$ 9,075,211	$ 10,313,050

The Notes to the Basic Financial Statements are an integral part of this statement.

Exhibit C-3

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
$ 4,677	$ 1,659,216	$ 48,325,886
-	898,500	53,028,091
-	15,366,254	16,892,889
4,677	17,923,970	118,246,866
-	5,479,092	57,810,955
65,929	32,963	861,407
-	422,788	1,213,519
-	1,826,684	4,342,762
-	52,316	6,589,591
-	904,755	4,529,138
-	172	247,206
-	-	751,656
-	21,648	4,066,682
-	6,808,306	6,866,749
-	611,282	3,219,470
-	6,300	4,644,548
-	-	8,478,963
-	-	908,888
-	4,605	4,711,965
-	1,607,278	2,728,349
-	-	11,414,848
-	-	4,100,611
-	-	318,231
2,614,816	-	2,730,170
-	-	25,230
-	-	150,176
2,680,745	17,778,189	130,711,114
(2,676,068)	145,781	(12,464,248)
-	-	2,690,000
-	-	14,655,000
-	-	312,103
-	-	(2,892,223)
2,640,593	-	11,039,593
-	-	(11,039,593)
2,640,593	-	14,764,880
(35,475)	145,781	2,300,632
35,475	1,283,427	18,516,837
$ -	$ 1,429,208	$ 20,817,469

DeSoto Independent School District

Exhibit C-4

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

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$	2,300,632
The District uses an internal service fund to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income of the internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net position.		(64,927)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions increases government-wide net position.		4,972,087
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 in the government-wide financia		(7,201,398)
Current year long-term debt principal payments on bonds payable, maintenance tax notes payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.		11,414,848
Current year interest accretion on capital appreciation bonds payable is not recorded in the fund financial statements, but is shown as an increase in accreted interest payable in the government-wide financial statements.		(4,249,317)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due. This amount represents the current year decrease in interest p		62,088
Revenues from property taxes are not recognized in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the government-wide financial statements.		722,344
Current year amortization of the premium/discount on bonds payable is not recorded in fund financial statements, but is shown as a decrease in long-term debt in the government-wide financial statements.		534,800
Current year amortization of the deferred charges on bond refundings is not recognized in the fund financial statements, but is shown as a decrease in deferred outflows of resources in the government-wide financial statements.		(427,862)
The current year issuance of bonds and notes payable is shown as other resources in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.		(17,345,000)
The premiums on the current year issuance of refunding bonds and regular bonds are recorded as other financing sources in the fund financial statements, but are shown as an increase in long-term debt in the government-wide financial state		(312,103)
The current year payment to the escrow agent for refunding debt is an other financing use in the fund financial statements, but is reported as a reduction in long-term debt in the government-wide financial statements.		2,892,223
The change in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		105,581
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds The net change consists of an increase in deferred outflows $9,292,659; increase in deferred inflows ($263,068); and increase in net pension liability ($11,186,512).		(2,156,921)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows $2,516,824; increase in deferred inflows ($1,278,197); and increase in net OPEB liability ($995,069).		243,558
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	$	(8,509,367)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-1**

Statement of Net Position
Proprietary Funds
June 30, 2019

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 236,032
Total assets	236,032
LIABILITIES	
Current liabilities	
Accrued expenses	195,788
Total liabilities	195,788
NET POSITION	
Unrestricted net position	40,244
TOTAL NET POSITION	$ 40,244

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-2**

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2019

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	$ 476,622
Total operating revenues	476,622
OPERATING EXPENSES	
Other operating costs	541,549
Total operating expenses	541,549
Operating loss	(64,927)
Net position - beginning	105,171
NET POSITION - ENDING	$ 40,244

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-3**
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2019

		Governmental Activities
		Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from other funds	$	476,622
Cash payments for insurance claims and costs		(438,729)
Net cash provided by operating activities		37,893
Net increase in cash and cash equivalents		37,893
CASH AND CASH EQUIVALENTS, beginning of year		198,139
CASH AND CASH EQUIVALENTS, end of year	$	236,032
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$	(64,927)
Effect of increases and decreases in current assets and liabilities:		
Increase in accrued expenses		102,820
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	37,893

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit E-1**

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 35,630	$ 94,561
Other receivables	-	18,620
TOTAL ASSETS	35,630	$ 113,181
LIABILITIES		
Accounts payable	-	$ 12,436
Due to student groups	-	100,745
TOTAL LIABILITIES	-	$ 113,181
NET POSITION		
Unrestricted net position	35,630	
TOTAL NET POSITION	$ 35,630	

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit E-2**

Statement of Changes in Fiduciary Fund Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2019

	Private Purpose Trust Fund
ADDITIONS	
Local and intermediate sources	$ 1,034
Total additions	1,034
DEDUCTIONS	
Operating costs	300
Total deductions	300
Change in net position	734
Net position - beginning	34,896
NET POSITION - ENDING	$ 35,630

The Notes to the Basic Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

DeSoto Independent School District's (the District) combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. Reporting Entity

The Board of Trustees (the Board), a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (the Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental reporting entity and has no component units.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal service fund activity has been eliminated to avoid overstating revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities include programs primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. ***General Fund*** – This fund is the District's primary operating fund. It is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

2. ***Debt Service Fund*** – This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the general fund after all of the related debt obligations have been met.

3. ***Capital Projects Fund*** – This fund is established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. ***Special Revenue Funds*** – These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

2. ***Internal Service Fund*** – The District utilizes an internal service fund to account for revenues and expenses related to services provided to parties inside the District on a cost-reimbursement basis. This fund facilitates distribution of support costs to the users of support services. The District has an internal service fund for its self-insured workers compensation plan.

   The internal service fund is a proprietary fund type. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund includes the cost of personal and contractual services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. ***Private Purpose Trust Fund*** – The District accounts for donations which have the stipulation that the funds be used for a specific purpose in this fund. The District's private purpose trust fund is a scholarship fund. These funds are not budgeted.

4. ***Agency Funds*** – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by the Agency's *Financial Accountability System Resource Guide*.

D. Budgetary Control

Formal budgetary accounting is employed for all required governmental funds and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal period beginning July 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to cross fund, function, or increase the overall budget allocations. Control of appropriations by the Board is maintained within funds at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and the food service fund. The other special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board. Such amendments are reflected in the official minutes of the Board.

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

Appropriated budget funds - food service special revenue fund	$	896,277
Nonappropriated budget funds		532,931
All special revenue funds	$	1,429,208

E. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

F. Inventories

The consumption method is used to account for inventories of paper and other supplies. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.

G. Interfund Transactions

Short-term amounts owed between funds are classified as Due from and due to other funds. Interfund transfers arise from the need to move cash.

H. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at the acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of $5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Furniture and equipment	10 - 30 years

I. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Payment for unused vacation leave days accumulated locally will be made upon retirement or separation from the District. All vacation pay is accrued when incurred in the government-wide 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. The District does not have a liability for unpaid sick leave at year end because the District's policy does not allow payment for unused sick leave not taken upon retirement or termination.

J. Cash and Cash Equivalents

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

K. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, less both accumulated depreciation and the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, excluding unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are recorded 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. Bond issuance costs are expensed as incurred.

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.

N. Risk Management

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

P. 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.

Q. Other Post-Employment Benefits

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

R. Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualify for reporting in this category:

1. **Deferred Outflows of Resources for Refunding Bonds** – reported in the government-wide statement of net position, deferred charges on refundings results from the difference in the carrying amount of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

2. **Deferred Outflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred outflows from the pension plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of pension liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.

3. **Deferred Outflows of Resources For OPEB** – reported in the government-wide statement of net position, the deferred outflows from the OPEB plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of OPEB liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

A deferred inflow of resources is an acquisition of net position that applies to a future period(s). The District has three items that qualify for reporting in this category:

1. **Deferred Inflows of Resources for Unavailable Revenue** – reported in the governmental funds balance sheet, unavailable revenue from property taxes arises from the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

2. **Deferred Inflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred inflows from the pension plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of pension liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.

3. **Deferred Inflows of Resources for OPEB** – reported in the government-wide statement of net position, the deferred inflows from the OPEB plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of OPEB liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

Note 2. Fund Balances

In the fund financial statements, the governmental funds present fund balance as follows:

- **Nonspendable**. This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories as being nonspendable as these items are not expected to be converted to cash.

- **Restricted**. This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committee.** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed resources for campus activity funds.

- **Assigned**. This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board may assign amounts for specific purposes. The District did not have any assigned fund balances as of June 30, 2018.

- **Unassigned**. This classification is the fund equity that is available for any legal purpose. The general fund is the only fund that will have a positive unassigned amount.

The order of spending and availability of fund balances is to reduce funds in the following order: restricted, committed, assigned, and finally unassigned funds

Note 3. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At June 30, 2019, the carrying amount of the District's deposit checking accounts and interest bearing demand accounts was $3,044,403 and the bank balance was $4,845,355. The District's cash deposits at June 30, 2019 and during the year ended June 30, 2019 were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

- Depository: Comerica Bank.
- The market value of securities pledged as of the date of the highest combined balance on deposit was $14,021,927.
- The highest combined balances of cash amounted to $4,845,355 and occurred on June 30, 2019.
- Total amount of FDIC coverage at the time of the highest combined balance was $250,000.

Investments

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 the District 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 District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

For fiscal year 2019, the District is invested in the following:

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End	Weighted Average Maturity (Days)
Texas CLASS	$ 2,090,315	AAA/Aam	AAA/Aam	51 days
TexasTERM	18,145	AAA/Aam	AAA/Aam	60 days
TexStar	16,969,338	AAA/Aam	AAA/Aam	15 days
Total cash equivalents	$ 19,077,798			

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

1. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
2. Level 2 inputs are inputs-other than quoted prices included within Level 1- that are observable for an asset or liability, either directly or indirectly.
3. Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investments in investment pools that are measured at net asset value are exempt from fair value reporting. All other investments are measured at fair value.

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. The Texas CLASS Trust Agreement (Trust) is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate (the Participants), MBIA Municipal Investors Service Corporation as Program Administrator (the Program Administrator) and Wells Fargo Bank Texas, NA as Custodian (the Custodian). Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian, and the Program Administrator. The Board administers the affairs of the Trust. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian.

The Board of Trustees has appointed an Advisory Board composed of Participants and other persons who do not have a business relationship with the Trust and are qualified to advise the Trust. The Advisory Board provides advice to the Board of Trustees and the Program Administrator about the investment policy and investment strategy of the Trust and about other matters as requested by the Board of Trustees and the Program Administrator. The Fund is rated AAA by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's.

Texas Short Term Asset Reserve Program (TexSTAR) is administered by J.P. Morgan Investment Management Inc. (JPMIM) and Hilltop Securities Inc. (HTS) under an agreement with the TexSTAR board of directors. JPMIM provides investment management services, and FirstSouthwest, a division of HTS, provides participant services and marketing. The fund is rated AAAm by Standard and Poor's Rating Service.

TexasTERM Local Government Investment Pool (TexasTERM) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (PFIA). TexasTERM offers a series of professionally managed portfolios that are available to municipalities, counties, school districts, special districts and other governmental entities in the State of Texas. An Advisory Board is responsible for the overall management of TexasTERM. With respect to TexasTERM, the Advisory Board's responsibilities include the formulation and implementation of its investment and operating policies. TexasTERM complies with statutory investment restrictions for Texas local governments as provided in the PFIA. The Investment Advisor and Administrator for TexasTERM is PFM Asset Management LLC.

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of net position		
Cash and cash equivalents	$	22,001,593
Fiduciary funds		
Cash and cash equivalents		130,191
Total cash and cash equivalents	$	22,131,784
Cash on hand	$	9,583
Deposits with financial institutions		3,044,403
Cash equivalents		19,077,798
Total cash and cash equivalents	$	22,131,784

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

1. **Credit Risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table on page 39 presents the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type held by the District.

2. **Custodial Credit Risk** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is 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 its investment or collateral securities that are in the possession of another party. Investments held by third parties were fully collateralized and held in the District's name
3. **Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The District's investments in public funds investment pools are not subject to the concentration risk.
4. **Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for each investment pool is less than 90 days. Additionally, all investments in bank certificates of deposit are covered by the District's depository pledge. The money market fund is also fully collateralized by pledged securities.
5. **Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2019, the District was not exposed to foreign currency risk.

Note 4. Capital Assets

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

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 8,174,624	$ -	$ -	$ 8,174,624
Construction in progress	29,390,692	-	(29,390,692)	-
Total capital assets not being depreciated	37,565,316	-	(29,390,692)	8,174,624
Capital assets, being depreciated:				
Buildings and improvements	224,355,544	1,078,831	28,166,300	253,600,675
Furniture and equipment	12,144,418	3,893,256	1,224,392	17,262,066
Total capital assets being depreciated	236,499,962	4,972,087	29,390,692	270,862,741
Less accumulated depreciation for:				
Buildings and improvements	(83,167,960)	(6,053,489)	-	(89,221,449)
Furniture and equipment	(7,514,392)	(1,147,909)	-	(8,662,301)
Total accumulated depreciation	(90,682,352)	(7,201,398)	-	(97,883,750)
Total capital assets, being depreciated, net	145,817,610	(2,229,311)	29,390,692	172,978,991
Governmental activities capital assets, net	$ 183,382,926	$ (2,229,311)	$ -	$ 181,153,615

Depreciation expense is charged as direct expense to programs of the District as follows:

Governmental activities		
Instruction	$	4,104,796
Instructional resources & media services		72,014
Curriculum & staff development		144,028
Instructional leadership		288,056
School leadership		432,084
Guidance, counseling & evaluation services		288,056
Health services		72,014
Student transportation		144,028
Food services		288,056
Cocurricular/extracurricular activities		144,028
General administration		216,042
Plant maintenance and operations		288,056
Security & monitoring services		216,042
Data processing services		432,084
Community services		72,014
Total depreciation expense - governmental activities	$	7,201,398

Note 5. Long-Term Debt

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes, and notes payable. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

The following is a summary of the changes in the District's long-term debt for the fiscal year ended June 30, 2019:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding July 1, 2018	Issued Current Year	Retired/ Refunded	Amounts Outstanding June 30, 2019	Due Within One Year
Bonded indebtedness							
1995 School Building and Refunding Bonds	5.60-6.75%	$ 27,022,385	$ 655,000	$ -	$ 130,000	$ 525,000	$ 120,000
2001 School Building and Refunding Bonds	4.00-5.92%	15,768,251	1,198,966	-	447,724	751,242	397,799
2006 School Building and Refunding Bonds	3.75-5.28%	64,851,130	513,106	-	-	513,106	-
2007 School Building and Refunding Bonds	3.80-4.50%	36,123,829	-	-	-	-	-
2010A Refunding Bonds	0.74-4.84%	8,491,469	3,481,469	-	-	3,481,469	-
2010B Refunding Bonds	0.85-4.06%	31,994,992	25,475,000	-	2,510,000	22,965,000	-
2012 Refunding Bonds	1.08-2.32%	4,995,925	4,520,925	-	600,320	3,920,605	579,752
2013 Refunding Bonds	2.00-4.41%	37,262,193	31,557,193	-	2,040,000	29,517,193	2,315,000
2015A Refunding Bonds	2.00-5.00%	7,640,000	4,725,000	-	3,080,000	1,645,000	-
2015B Refunding Bonds	3.00-5.00%	28,400,000	27,165,000	-	490,000	26,675,000	295,000
2016A Refunding Bonds	2.00-5.00%	1,110,000	1,055,000	-	30,000	1,025,000	15,000
2016B Refunding Bonds	2.00-5.00%	26,750,000	26,750,000	-	-	26,750,000	10,000
2019 Refunding Bonds	4.00%	2,690,000	-	2,690,000	-	2,690,000	-
Total bonded indebtedness			127,096,659	2,690,000	9,328,044	120,458,615	3,732,551
Accreted interest - Capital appreciation bonds			68,572,673	4,249,317	4,229,943	68,592,047	4,164,546
Bond premiums			8,612,397	312,102	534,800	8,389,699	-
Maintenance Tax Notes Series 2014			8,215,000	-	470,000	7,745,000	480,000
Maintenance Tax Notes Series 2019			-	14,655,000	-	14,655,000	4,805,000
Note payable			5,152,149	-	236,860	4,915,289	288,964
Net pension liability			19,502,787	14,496,869	3,310,357	30,689,299	-
Net OPEB liability			33,854,377	4,431,087	3,436,018	34,849,446	-
Compensated absences			146,054	37,910	143,491	40,473	-
Total other obligations			144,055,437	38,182,285	12,361,469	169,876,253	9,738,510
Total obligations of District			$ 271,152,096	$ 40,872,285	$ 21,689,513	$ 290,334,868	$ 13,471,061

Presented below is a summary of general obligation bond requirements to maturity:

Years Ending June 30,	General Obligation Bonds Principal	Interest	Total Requirements
2020	$ 3,732,551	$ 3,608,253	$ 7,340,804
2021	6,550,914	3,441,406	9,992,320
2022	5,819,635	3,314,331	9,133,966
2023	5,630,879	3,226,056	8,856,935
2024	5,922,720	3,138,031	9,060,751
2025 - 2029	26,461,848	13,738,480	40,200,328
2030 - 2034	32,724,052	8,978,168	41,702,220
2035 - 2039	30,694,548	3,130,382	33,824,930
2040 - 2042	2,921,468	32,500	2,953,968
Totals	$ 120,458,615	$ 42,607,607	$ 163,066,222

The 1995, 2001, 2006, 2010A, 2012 and 2013 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature variously through 2040. Interest accrues on these bonds semi-annually even though the interest is not paid until maturity.

General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General obligation bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement. There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2019.

On May 22, 2019, the District issued Unlimited Tax Refunding Bonds, Series 2019, totaling $2,690,000. The refunding bonds have an interest rate of 4.00% and mature annually with semi-annual interest payments. The proceeds were used to redeem $1,275,000 of Refunding Bonds, Series 2010B, and $1,575,000 of Refunding Bonds, Series 2015A. This advanced refunding resulted in an economic loss of $93,369 and an increase of debt service payments of $571,295.

DeSoto Independent School District Limited Maintenance Tax Notes, Tax Credit 2014 were issued by the District on November 20, 2014, with an interest rate of 1.0%. Debt service payments for the notes will be paid from the general fund. The maintenance tax notes were issued under the federal Qualified Zone Academy Bond (QZAB) program. Under this program, proceeds must be used for specified programs and costs.

On April 25, 2019, the District issued Maintenance Tax Notes, Series 2019 with an interest rate from 2.%-2%. Debt service payments for the notes will be paid from the general fund, and the note proceeds will be used for day to day operating maintenance costs. The note will be repaid in the general fund with general revenues such as property taxes. The payment requirements for all Maintenance Tax Notes are as follows:

Years Ending	Maintenance Tax Notes		Total
June 30,	Principal	Interest	Requirements
2020	$ 5,285,000	$ 427,277	$ 5,712,277
2021	5,345,000	356,891	5,701,891
2022	5,495,000	212,603	5,707,603
2023	510,000	60,200	570,200
2024	525,000	55,025	580,025
2025 - 2029	2,785,000	193,525	2,978,525
2030 - 2033	2,455,000	49,775	2,504,775
Totals	$ 22,400,000	$ 1,355,296	$ 23,755,296

On June 28, 2017, the District entered into a Note Payable with Government Capital Corporation in order to purchase HVAC mechanical retrofits and energy management controls to be installed at District facilities. The property cost was $5,094,849 plus an additional $57,300 in issuance costs, which rolled into the cost of the loan. The total note was $5,152,149 and is seen as an addition on the long-term debt rollforward. The note requires a total payment of $433,532 over 15 periods, maturing on October 15, 2032. Debt service payments for the note will be paid from the general fund.

The payment requirements are as follows:

Years Ending June 30,	Note Payable Principal	Note Payable Interest	Total Requirements
2020	$ 288,964	$ 144,569	$ 433,533
2021	297,459	136,073	433,532
2022	306,204	127,328	433,532
2023	315,207	118,325	433,532
2024	324,474	109,058	433,532
2025 - 2029	1,771,197	396,464	2,167,661
2030 - 2033	1,611,784	120,333	1,732,117
Totals	$ 4,915,289	$ 1,152,150	$ 6,067,439

Defeased Bonds Outstanding

In the current year, the District issued refunding bonds to defease certain portions of outstanding bonds to effectively manage cash flow of the District. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the portion of the refunded bonds. Accordingly, the trust account assets and liabilities for the portion of the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until maturity of the earlier issues. On June 30, 2019, $2,850,000 of bonds outstanding are considered defeased.

Short-Term Debt

On November 20, 2018, The District issued Tax and Revenue Anticipation Note, Series 2018 in advance of property tax receipt, depositing the proceeds in its general fund. This note was necessary because the District's obligations were due in November 2018, whereas a large portion of the District's revenue was due to be received in April 2019.

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

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Note, Series 2018	$ -	$ 6,000,000	$ (6,000,000)	$ -

Note 6. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) 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 upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2018-19 fiscal period was based was $3,155,093,553. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the period ended June 30, 2019, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $1.17 and $0.32 per $100 valuation, respectively, for a total of $1.49 per $100 valuation.

Current tax collections for the period ended June 30, 2019 were 98.15% of the June 30, 2019 adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written of, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled $995,608 and $257,263 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

Note 7. Interfund Balances and Transfers

Interfund receivables and payables at June 30, 2019 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from June 30, 2019.

Payable Fund	Receivable Fund	Amount	Primary Purpose
General fund	Debt Service Fund	$ 20,513	Refund of bond fees
Nonmajor governmental funds	General fund	1,249,891	To cover cash shortage
		$ 1,270,404	

The detail transfer schedule for the fiscal year ended June 30, 2019 includes the following:

Transfer In	Transfer Out	Amount	Primary Purpose
Capital Projects Fund	General fund	$ 2,640,593	To cover final capital project costs
Debt Service Fund	General fund	8,399,000	To cover debt service payments
		$ 11,039,593	

Note 8. Defined Benefit Pension Plan

A. Plan Description

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

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

B. Pension Plan Fiduciary Net Position

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, Texas, 78701-2698; or by calling (512) 542-6592.

C. Benefits Provided

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

D. Contributions

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

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

	2016	2017	2018	2019
Member	7.2%	7.7%	7.7%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%	6.8%

The contributions amount for the District's fiscal year 2019 are as follows:

Employer contributions	$	2,383,056
Member contributions		5,215,920
NECE on-behalf contributions		2,645,138

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

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

1. 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.
2. During a new member's first 90 days of employment.
3. When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
4. When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

1. 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.
2. When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

E. Actuarial Assumptions

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

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value
Single discount rate	6.907%
Long-term expected rate	7.25%
Municipal bond rate as of August 2018	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.30%
Salary increases	3.05% to 9.05% including inflation
Ad hoc postemployment benefit changes	None

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

Discount Rate

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

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Geometric Real Rate of Return**	Expected Contribution to Long-term Portfolio Returns
Global equity			
U.S.	18.0%	5.70%	1.04%
Non-U.S. developed	13.0%	6.90%	0.90%
Emerging markets	9.0%	8.95%	0.80%
Directional hedge funds	4.0%	3.53%	0.14%
Private equity	13.0%	10.18%	1.32%
Stable value:			
U.S. treasuries	11.0%	1.11%	0.12%
Absolute return	0.0%	0.00%	0.00%
Stable value hedge funds	4.0%	3.09%	0.12%
Cash	1.0%	-0.30%	0.00%
Real return:			
Global inflation linked bonds	3.0%	0.70%	0.02%
Real assets	14.0%	5.21%	0.73%
Energy and natural resources	5.0%	7.48%	0.37%
Commodities	0.0%	0.00%	0.00%
Risk parity:			
Risk parity	5.0%	3.70%	0.18%
Inflation expectation			2.30%
Volatility drag***	0.0%		-0.79%
Total	100%		7.25%

* Target allocations are based on the FY2016 policy model

** Capital market assumptions come from Aon Hewitt (2017 Q4)

*** The volatility drag resulting from the conversion between arithmetic and geometric mean returns

F. Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 6.907%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase In Discount Rate (7.907%)
District's proportionate share of the net pension liability	$ 46,317,511	$ 30,689,299	$ 18,037,334

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions
At June 30, 2019, the District reported a liability of $30,689,299 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	$	30,689,299
State's proportionate share that is associated with the District		43,246,197
	$	73,935,496

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0557557% an increase of .0037674% from its proportion measured as of August 31, 2017.

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

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

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

For the fiscal year ended June 30, 2019, the District recognized pension expense of $6,437,142 and revenue of $4,280,221 for support provided by the State.

At June 30, 2019, the District reported the deferred outflows of resources for contribution made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 191,292	$ (752,994)
Changes in actuarial assumptions	11,064,971	(345,781)
Difference between projected and actual investment earnings	-	(582,307)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,832,984	(1,564,810)
Contributions paid to TRS subsequent to the measurement date	2,042,504	-
	$ 18,131,751	$ (3,245,892)

$2,042,504 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Pension Expense Amount
2020	$ 3,478,089
2021	2,252,667
2022	1,921,644
2023	2,250,383
2024	1,908,029
Thereafter	1,032,543
Total	$ 12,843,355

Note 9. Defined Other Post-Employment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

Detailed 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, Texas, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and 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 a retiree with and without Medicare coverage.

	Medicare	Non-medicare
Retiree*	$ 135	$ 200
Retiree and spouse	529	689
Retiree* and children	468	408
Retiree and family	1,020	999

* 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 TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act.

The following table shows contributions to the TRS-Care plan by type of contributor.

	2019	2018
Active employee	0.65%	0.65%
Non-employer contribution entity (state)	1.25%	1.25%
Employers/District	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

The contribution amounts for the District's fiscal year 2019 are as follows:

District contributions	$	602,661
Member contributions		440,297
NECE on-behalf contributions (state)		681,213

In addition, the State of Texas contributed $221,216 and $190,613, in 2019 and 2018, respectively, for on-behalf payments for Medicare Part D.

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million in one-time, supplemental funding for the fiscal year 2018-19 biennium to continue to support the program. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

Actuarial Assumptions
A change was made in the measurement date of the total OPEB liability for this fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This is the first year using the roll forward procedures.

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 used in this OPEB valuation were identical to those used in the respective TRS pension valuation.

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

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

Valuation date	August 31, 2017, rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Inflation	2.30%
Discount rate	3.69%. Sourced from fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of August 31, 2018.
Aging factors	Based on plan specific experience
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected annual salary increases**	3.05% to 9.05%, including inflation
Healthcare trend rates	Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75 percent for non-Medicare retirees. Initial prescription drug trend rate of 11.00 percent for all retirees. The first year trend increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.
Ad hoc postemployment benefit changes	None

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

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

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

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

Sensitivity of the Net OPEB Liability

Discount Rate
The following table presents the District's proportionate share of net OPEB liability for TRS-Care if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%).

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

1% Decrease (2.69%)	Current Discount Rate (3.69%)	1% Increase (4.69%)
$ 41,482,814	$ 34,849,446	$ 29,602,024

Healthcare Cost Trend Rates
The following table presents the District's proportionate share of net OPEB liability 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 1% lower or 1% higher than the assumed health-care cost trend rate:

Sensitivity of the Net OPEB Liability to
the Healthcare Cost Trend Rate Assumptions

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
$ 28,943,032	$ 34,849,446	$ 42,628,320

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEBs
At June 30, 2019, the District reported a liability of $33,849,446 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 net OPEB liability	$	34,849,446
State's proportionate share of the net OPEB liability associated with the District		49,375,646
Total	$	84,225,092

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

At August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.0697953% which was a decrease of 0.0080554% from its proportion measured as of August 31, 2017.

Changes since the Prior Actuarial Valuation

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This changed increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability $2.3 billion.
- Change of benefit terms since the prior measurement date made effective September 1. 2017 by the 85th Texas Legislature.

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of $1,552,432 and revenue of $1,795,990 for support provided by the State.

At June 30, 2019, the District reported the District's contributions paid after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,849,331	$ (549,975)
Changes of assumptions	581,543	(10,470,259)
Net difference between projected and actual earnings on pension plan investments	6,095	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	135	(4,419,313)
District contributions after measurement date	515,241	-
Totals	$ 2,952,345	$ (15,439,547)

$515,241 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2020	$	(1,921,327)
2021		(1,921,327)
2022		(1,921,327)
2023		(1,922,479)
2024		(1,923,139)
Thereafter		(3,392,844)
Total	$	(13,002,443)

Note 10. Health Care

During the period ended June 30, 2019, employees of the District were covered by a health insurance plan (the Plan). The District contributed $351 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan.

Note 11. Workers Compensation

The District participates in the Workers Compensation Solutions Workers Compensation Self-Insurance Joint Fund. Workers Compensation Solutions has performed an evaluation of claims submitted for incidents occurring prior to June 30, 2019, and has projected open claims and incurred but not reported claims will cost $195,788.

Edwards Risk Management, Inc. provides claims administration. Reinsurance is provided for individual claim losses exceeding $450,000 and aggregate losses exceeding $2,000,000 for the entire pool. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

Changes in workers compensation claims liability amounts for the last three fiscal years are represented below:

Fiscal Year	Beginning of Period Claims Liability	Claims and Changes in Estimates	Claims Payments	End of Period Claims Liability
2019	$ 92,968	$ (3,407,287)	$ (3,510,107)	$ 195,788
2018	26,838	336,386	270,256	92,968
2017	174,181	353,422	500,765	26,838

Note 12. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, Per Capita, Existing Debt Allotment, and Instruction Facilities Allotment Programs. Amounts due from federal and state governments as of June 30, 2019, are summarized below. All federal grants shown below are passed through the Agency and are reported as due from other governments.

Fund	State Entitlements	Federal Government	Local Governments	Total
General	$ 8,543,893	$ 943,790	$ -	$ 9,487,683
Nonmajor	-	1,596,834	-	1,596,834
Total	$ 8,543,893	$ 2,540,624	$ -	$ 11,084,517

Note 13. Litigation and Contingencies

The District is a party to various legal actions, none of which are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying basic financial statements for such contingencies.

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceed investments that exceed bond issue stated interest rates. The formula is based on a five year history, therefore the exact amount of liability, if any, is unknown until five years from the bond issuance date. This calculation yielded no known material rebate liability as of June 30, 2019.

Note 14. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Funds	Total
Property taxes	$ 35,001,914	$ 9,581,384	$ -	$ -	$ 44,583,298
Food sales	-	-	-	1,001,466	1,001,466
Investment income	199,139	141,457	4,677	2,859	348,132
Penalties, interest and other tax related income	199,519	57,116	-	-	256,635
Co-curricular student activities	148,223	-	-	185,083	333,306
Other	1,333,042	199	-	469,808	1,803,049
Total	$ 36,881,837	$ 9,780,156	$ 4,677	$ 1,659,216	$ 48,325,886

Note 15. Unearned and Unavailable Revenue

Unearned and unavailable revenue reported in the governmental funds at June 30, 2018 consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Net tax unavailable revenue	$ 872,054	$ 222,443	$ -	$ 1,094,497
SHARS unavailable revenue	943,790	-	-	943,790
Total unavailable revenue	$ 1,815,844	$ 222,443	$ -	$ 2,038,287
Other unearned revenue	$ -	$ -	$ 642,201	$ -
Total unearned revenue	$ -	$ -	$ 642,201	$ -

Revenue that is not considered available at year end is reported as a deferred inflow of resources in the governmental funds and is recorded as revenue in the government-wide financial statements. Accordingly, tax and SHARS revenues are reported as revenue in the government-wide financial statements.

Note 16. Nonmonetary Transactions

During 2019, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $749,237. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of $749,237 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas

Note 17. Subsequent Events

On July 1, 2019, the District entered into a capital lease for 27 school buses in the amount of $2,779,237.

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Required Supplementary Information

DeSoto Independent School District

Exhibit G-1

Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive or (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 37,231,790	$ 36,804,799	$ 36,881,837	$ 77,038
5800	State program revenues	53,963,245	49,501,729	49,563,949	62,220
5900	Federal program revenues	925,000	1,412,000	1,526,635	114,635
5020	Total revenues	92,120,035	87,718,528	87,972,421	253,893
	EXPENDITURES				
	Current				
0011	Instruction	50,936,964	53,174,164	52,331,863	842,301
0012	Instructional resources and media services	897,237	792,528	762,515	30,013
0013	Curriculum and instructional staff development	1,402,358	971,848	790,731	181,117
0021	Instructional leadership	2,717,877	2,766,933	2,516,078	250,855
0023	School leadership	6,219,557	6,597,336	6,537,275	60,061
0031	Guidance, counseling and evaluation services	3,566,995	3,789,482	3,624,383	165,099
0032	Social work services	383,937	382,937	247,034	135,903
0033	Health services	968,527	778,757	751,656	27,101
0034	Student (pupil) transportation	2,718,096	4,126,034	4,045,034	81,000
0035	Food services	-	60,465	58,443	2,022
0036	Extracurricular activities	2,715,896	2,827,877	2,608,188	219,689
0041	General administration	4,045,071	4,998,681	4,638,248	360,433
0051	Facilities maintenance and operations	8,649,027	8,791,659	8,478,963	312,696
0052	Security and monitoring services	749,026	968,055	908,888	59,167
0053	Data processing services	2,782,387	4,813,694	4,707,360	106,334
0061	Community services	978,563	1,292,108	1,121,071	171,037
	Debt service				
0071	Principal on long-term debt	549,800	704,848	704,848	-
0072	Interest on long-term debt	-	376,324	376,280	44
0073	Debt issuance cost and fees	-	234,500	229,783	4,717
	Capital outlay				
0081	Facilities acquisition and construction	-	115,384	115,354	30
	Intergovernmental				
0095	Payments to Juvenile Justice Alternative Education Program	25,000	25,600	25,230	370
0099	Other intergovernmental charges	150,917	150,617	150,176	441
	Total expenditures	90,457,235	98,739,831	95,729,401	3,010,430
1100	Excess (deficiency) of revenues over (under) expenditures	1,662,800	(11,021,303)	(7,756,980)	3,264,323
	OTHER FINANCING SOURCES				
7914	Loan proceeds	-	14,655,000	14,655,000	-
8911	Transfers out	-	(11,039,593)	(11,039,593)	-
7080	Total other financing sources (uses)	-	3,615,407	3,615,407	-
1200	Net change in fund balances	1,662,800	(7,405,896)	(4,141,573)	3,264,323
0100	Fund balance - beginning	13,216,784	13,216,784	13,216,784	-
3000	**FUND BALANCE - ENDING**	$ 14,879,584	$ 5,810,888	$ 9,075,211	$ 3,264,323

The Notes to the Required Supplementary Information are an integral part of this schedule.

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DeSoto Independent School District

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Five Fiscal Years

		2019
District's proportion of the net pension liability		0.0557557%
District's proportionate share of net pension liability	$	30,689,299
State's proportionate share of the net pension liability associated with the District		43,246,197
TOTALS	$	73,935,496
District's covered payroll	$	59,229,279
District's proportionate share of the net pension liability as a percentage of its covered payroll		51.81%
Plan fiduciary net position as a percentage of the total pension liability		73.74%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2018 - the period from September 1, 2017 - August 31, 2018.

Note: Ten years of data is not available.

Exhibit G-2

2018	2017	2016	2015
0.0609946%	0.0519883%	0.0498181%	0.0336442%
$ 19,502,787	$ 19,645,607	$ 17,610,035	$ 8,986,830
28,317,789	33,950,679	31,354,989	25,809,819
$ 47,820,576	$ 53,596,286	$ 48,965,024	$ 34,796,649
$ 60,949,899	$ 55,996,281	$ 51,070,870	$ 47,685,980
32.00%	35.08%	34.48%	18.85%
82.17%	78.00%	78.43%	83.25%

DeSoto Independent School District

Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Five Fiscal Years

		2019
TRS		
Contractually required contribution	$	2,383,056
Contributions in relation to contractually required contribution		(2,383,056)
CONTRIBUTIONS DEFICIENCY (EXCESS)	$	-
District's covered payroll	$	64,244,575
Contributions as a percentage of covered payroll		3.71%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2017 - August 31, 2018.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Exhibit G-3

2018	2017	2016	2015
$ 1,863,057	$ 1,255,991	$ 1,622,610	$ 1,342,111
(1,863,057)	(1,255,991)	(1,622,610)	(1,342,111)
$ -	$ -	$ -	$ -
$ 59,288,941	$ 60,392,297	$ 54,874,390	$ 49,824,480
3.14%	2.08%	2.96%	2.69%

DeSoto Independent School District **Exhibit G-4**

Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan
Teacher Retirement System of Texas
For the Last Two Fiscal Years

	2019	2018
District's proportion of the net OPEB liability	0.0697953%	0.0778508%
District's proportionate share of net OPEB liability	$ 34,849,446	$ 33,854,377
State's proportionate share of the net OPEB liability associated with the District	49,375,646	47,618,752
TOTALS	$ 84,225,092	$ 81,473,129
District's covered payroll	$ 59,229,279	$ 60,949,899
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	58.84%	55.54%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2018 through the period from September 1, 2017 - August 31, 2018.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

DeSoto Independent School District **Exhibit G-5**

Schedule of the District's Contributions to the
Teacher Retirement System of Texas OPEB Plan
For the Last Two Fiscal Years

	2019	2018
TRS		
Contractually required contribution	$ 602,661	$ 499,063
Contributions in relation to contractually required contribution	(602,661)	(499,063)
CONTRIBUTIONS DEFICIENCY (EXCESS)	$ -	$ -
District's covered payroll	$ 64,244,575	$ 59,288,941
Contributions as a percentage of covered payroll	0.94%	0.84%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2017 - August 31, 2018.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Note 1. Budgetary Data

A. Budgetary Information

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

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

2. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.

3. Prior to the expenditures of funds, the budget is adopted by the Board.

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

Combining Schedules

DeSoto Independent School District

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
	ASSETS					
1110	Cash and cash equivalents	$ -	$ -	$ 57,177	$ 4,675	$ 12,000
1240	Due from other governments	-	359,903	82,786	-	8,846
1000	**TOTAL ASSETS**	$ -	$ 359,903	$ 139,963	$ 4,675	$ 20,846
	LIABILITIES					
2110	Accounts payable	$ -	$ 47,364	$ 18,446	$ -	20,846
2160	Accrued wages payable	-	76,958	121,517	-	-
2170	Due to other funds	-	235,581	-	-	-
2180	Due to other governments	-	-	-	4,675	-
2300	Unearned revenues	-	-	-	-	-
2000	Total liabilities	-	359,903	139,963	4,675	20,846
	FUND BALANCES					
	Restricted					
3450	Federal or state funds grant restriction	-	-	-	-	-
	Committed					
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	-	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ -	$ 359,903	$ 139,963	$ 4,675	$ 20,846

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
$ 940,244	$ -	$ -	$ -	$ -	$ 72,843	$ -
-	-	64,262	23,302	548,222	-	-
$ 940,244	$ -	$ 64,262	$ 23,302	$ 548,222	$ 72,843	$ -
$ 35,273	$ -	$ 2,659	$ 4,130	$ 35,575	$ 4,968	$ -
8,694	-	-	-	30,282	15,575	-
-	-	61,603	19,172	482,365	-	-
-	-	-	-	-	-	-
-	-	-	-	-	52,300	-
43,967	-	64,262	23,302	548,222	72,843	-
896,277	-	-	-	-	-	-
-	-	-	-	-	-	-
896,277	-	-	-	-	-	-
$ 940,244	$ -	$ 64,262	$ 23,302	$ 548,222	$ 72,843	$ -

DeSoto Independent School District

Combining Balance Sheet
Nonmajor Governmental Funds – Continued
June 30, 2019

Data Control Codes		289 Other Federal Grants	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund
	ASSETS					
1110	Cash and cash equivalents	$ 4,532	$ -	$ 977	$ 10,130	$ 921,640
1240	Due from other governments	61,589	447,924	-	-	-
1000	**TOTAL ASSETS**	$ 66,121	$ 447,924	$ 977	$ 10,130	$ 921,640
	LIABILITIES					
2110	Accounts payable	$ 6,625	$ 7,180	$ -	$ -	$ 204,608
2160	Accrued wages payable	-	66,070	-	-	-
2170	Due to other funds	54,964	374,674	-	-	-
2180	Due to other governments	4,532	-	-	-	-
2300	Unearned revenues	-	-	977	7,850	519,836
2000	Total liabilities	66,121	447,924	977	7,850	724,444
	FUND BALANCES					
	Restricted					
3450	Federal or state funds grant restriction	-	-	-	2,280	197,196
	Committed					
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	2,280	197,196
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 66,121	$ 447,924	$ 977	$ 10,130	$ 921,640

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Nonmajor Governmental Funds
$ 39,202	$ 382,478	$ 5,077	$ 3,324	$ 13,635	$ 2,467,934
-	-	-	-	-	1,596,834
$ 39,202	$ 382,478	$ 5,077	$ 3,324	$ 13,635	$ 4,064,768
$ -	$ 27,491	$ -	$ -	$ -	$ 415,165
-	-	-	-	-	319,096
-	21,532	-	-	-	1,249,891
-	-	-	-	-	9,207
39,202	-	5,077	3,324	13,635	642,201
39,202	49,023	5,077	3,324	13,635	2,635,560
-	-	-	-	-	1,095,753
-	333,455	-	-	-	333,455
-	333,455	-	-	-	1,429,208
$ 39,202	$ 382,478	$ 5,077	$ 3,324	$ 13,635	$ 4,064,768

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2019

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
	REVENUES					
5700	Local and intermediate sources	$ -	$ -	$ -	$ -	$ -
5800	State program revenues	-	-	-	-	-
5900	Federal program revenues	120,894	1,477,224	1,707,775	4,294	20,846
5020	Total revenues	120,894	1,477,224	1,707,775	4,294	20,846
	EXPENDITURES					
	Current					
0011	Instruction	69,114	1,186,121	686,204	4,294	20,846
0012	Instructional resources and media service	32,963	-	-	-	-
0013	Curriculum and instructional staff development	18,645	162,489	50,723	-	-
0021	Instructional leadership	-	8,073	78,135	-	-
0023	School leadership	-	52,316	-	-	-
0031	Guidance, counseling and evaluation services	-	-	892,713	-	-
0032	Social work services	172	-	-	-	-
0034	Student (pupil) transportation	-	21,648	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0051	Facilities maintenance and operations	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	-	46,577	-	-	-
	Capital outlay					
0081	Facilities acquisition and construction	-	-	-	-	-
6030	Total expenditures	120,894	1,477,224	1,707,775	4,294	20,846
1200	Net change in fund balance	-	-	-	-	-
0100	Fund balance - beginning	-	-	-	-	-
4000	**FUND BALANCE - ENDING**	$ -	$ -	$ -	$ -	$ -

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
$ 1,004,325	$ -	$ -	$ -	$ -	$ -	$ -
142,490	-	-	-	-	-	-
5,591,027	97,274	148,557	47,938	3,135,803	887,581	483,944
6,737,842	97,274	148,557	47,938	3,135,803	887,581	483,944
-	97,274	-	15,133	2,295,406	307,581	175,872
-	-	-	-	-	-	-
-	-	148,298	32,805	8,253	-	270
-	-	259	-	821,239	577,545	267,886
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,808,306	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	6,300	-	-
-	-	-	-	-	-	-
-	-	-	-	4,605	-	-
-	-	-	-	-	2,455	39,916
-	-	-	-	-	-	-
6,808,306	97,274	148,557	47,938	3,135,803	887,581	483,944
(70,464)	-	-	-	-	-	-
966,741	-	-	-	-	-	-
$ 896,277	$ -	$ -	$ -	$ -	$ -	$ -

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2019

Data Control Codes		289 Other Federal Grants	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund
	REVENUES					
5700	Local and intermediate sources	$ -	$ -	$ -	$ -	$ -
5800	State program revenues	-	-	-	-	749,237
5900	Federal program revenues	116,095	1,514,558	-	-	-
5020	Total revenues	116,095	1,514,558	-	-	749,237
	EXPENDITURES					
	Current					
0011	Instruction	30,506	-	-	-	552,041
0012	Instructional resources and media service	-	-	-	-	-
0013	Curriculum and instructional staff development	-	-	-	-	-
0021	Instructional leadership	73,547	-	-	-	-
0023	School leadership	-	-	-	-	-
0031	Guidance, counseling and evaluation services	12,042	-	-	-	-
0032	Social work services	-	-	-	-	-
0034	Student (pupil) transportation	-	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0051	Facilities maintenance and operations	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	-	1,514,558	-	-	-
	Capital outlay					
0081	Facilities acquisition and construction	-	-	-	-	-
6030	Total expenditures	116,095	1,514,558	-	-	552,041
1200	Net change in fund balance	-	-	-	-	197,196
0100	Fund balance - beginning	-	-	-	2,280	-
4000	**FUND BALANCE - ENDING**	$ -	$ -	$ -	$ 2,280	$ 197,196

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Non-Major Governmental Funds
$ 3,772	$ 651,119	$ -	$ -	$ -	$ 1,659,216
6,773	-	-	-	-	898,500
-	-	-	-	12,444	15,366,254
10,545	651,119	-	-	12,444	17,923,970
6,773	20,788	-	-	11,139	5,479,092
-	-	-	-	-	32,963
-	-	-	-	1,305	422,788
-	-	-	-	-	1,826,684
-	-	-	-	-	52,316
-	-	-	-	-	904,755
-	-	-	-	-	172
-	-	-	-	-	21,648
-	-	-	-	-	6,808,306
-	611,282	-	-	-	611,282
-	-	-	-	-	6,300
-	-	-	-	-	-
-	-	-	-	-	4,605
3,772	-	-	-	-	1,607,278
-	-	-	-	-	-
10,545	632,070	-	-	12,444	17,778,189
-	19,049	-	-	-	145,781
-	314,406	-	-	-	1,283,427
$ -	$ 333,455	$ -	$ -	$ -	$ 1,429,208

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Required T.E.A. Schedules

DeSoto Independent School District

Schedule of Revenues, Expenditures and Changes in Fund Balance
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended June 30, 2019

	(1)	(2)	(3)
	Tax Rates		Assessed/ Appraised Value
Last Ten Years	Maintenance	Debt Service	for School Tax Purposes
2010 and prior years	Various	Various	Combined 2010 and prior
2011	1.040000	0.450000	2,105,349,551
2012	1.040000	0.400000	2,096,688,182
2013	1.040000	0.400000	2,066,718,966
2014	1.040000	0.450000	2,093,189,363
2015	1.040000	0.430000	2,216,234,188
2016	1.170000	0.290000	2,382,114,141
2017	1.170000	0.290000	2,541,291,208
2018	1.170000	0.320000	2,793,082,299
2019	1.170000	0.320000	3,155,093,553
1000 TOTALS			

(10) Beginning Balance July 1, 2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance June 30, 2019
$ 285,458	$ -	$ 18,892	$ 5,604	$ (22,487)	$ 238,475
48,581	-	2,608	1,129	(6,189)	38,655
52,784	-	3,179	1,223	(3,018)	45,364
76,493	-	5,495	2,113	(2,930)	65,955
91,425	-	26,348	11,401	25,014	78,690
125,270	-	37,727	15,599	35,128	107,072
155,139	-	54,596	13,532	34,796	121,807
246,625	-	37,081	9,191	(19,118)	181,235
604,341	-	149,342	40,846	(149,459)	264,694
-	45,139,476	34,668,352	9,481,942	(155,387)	833,795
$ 1,686,116	$ 45,139,476	$ 35,003,620	$ 9,582,580	$ (263,650)	$ 1,975,742

DeSoto Independent School District

Exhibit J-2

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budgetary Comparison Schedule – Child Nutrition Program
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
	REVENUES				
5700	Total local and intermediate sources	$ 958,525	$ 920,510	$ 1,004,325	$ 83,815
5800	State program revenues	133,190	142,822	142,490	(332)
5900	Federal program revenues	5,293,035	5,614,750	5,591,027	(23,723)
5020	Total revenues	6,384,750	6,678,082	6,737,842	59,760
	EXPENDITURES				
0035	Food services	6,627,282	7,037,651	6,808,306	229,345
6030	Total expenditures	6,627,282	7,037,651	6,808,306	229,345
1200	Net change in fund balance	(242,532)	(359,569)	(70,464)	289,105
0100	Fund balance - beginning	966,741	966,741	966,741	-
3000	**FUND BALANCE - ENDING**	$ 724,209	$ 607,172	$ 896,277	$ 289,105

DeSoto Independent School District **Exhibit J-3**

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison Schedule – Debt Service Fund
For the Fiscal Year Ended June 30, 2019

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
	REVENUES				
5700	Total local and intermediate sources	$ 9,942,961	$ 9,793,236	$ 9,780,156	$ (13,080)
5800	State program revenues	2,506,592	2,766,079	2,565,642	(200,437)
5020	Total revenues	12,449,553	12,559,315	12,345,798	(213,517)
	EXPENDITURES				
	Debt service				
0071	Principal on long term debt	14,439,131	14,550,611	10,710,000	3,840,611
0072	Interest on long term debt	-	-	3,724,331	(3,724,331)
0073	Bond issuance cost and fees	-	-	88,448	(88,448)
6030	Total expenditures	14,439,131	14,550,611	14,522,779	27,832
1100	Excess (deficiency) of revenues over (under) expenditures	(1,989,578)	(1,991,296)	(2,176,981)	(185,685)
	OTHER FINANCING SOURCES (USES)				
7901	Refunding bonds issued	-	2,690,000	2,690,000	-
7915	Transfers in	-	8,399,000	8,399,000	-
7916	Premium or discount on issuance of bonds	-	312,103	312,103	-
8949	Payment to escrow agent	-	(2,892,223)	(2,892,223)	-
7080	Total other financing sources (uses)	-	8,508,880	8,508,880	-
1200	Net change in fund balance	(1,989,578)	(1,991,296)	(2,176,981)	(185,685)
0100	Fund balance - beginning	3,981,151	3,981,151	3,981,151	-
3000	**FUND BALANCE - ENDING**	$ 1,991,573	$ 10,498,735	$ 10,313,050	$ (185,685)

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Federal Awards Section

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
DeSoto Independent School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto Independent School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs to be a significant deficiency (2019-001).

Compliance and Other Matters

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

Weaver and Tidwell, L.L.P.
2300 North Field Street, Suite 1000 | Dallas, Texas 75201
Main: 972.490.1970 | Fax:972.702.8321
CPAs AND ADVISORS | WEAVER.COM

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 13, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees
DeSoto Independent School District DeSoto, Texas

Report on Compliance for Each Major Federal Program

We have audited DeSoto Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Weaver and Tidwell, L.L.P.
2300 North Field Street, Suite 1000 | Dallas, Texas 75201
Main: 972.490.1970 | Fax:972.702.8321
CPAs AND ADVISORS | WEAVER.COM

The Board of Trustees
DeSoto Independent School District

Report on Internal Control over Compliance

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

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

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 13, 2019

DeSoto Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal and State Awards

Internal control over major programs:

Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?		Yes	X	None reported

An unmodified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?		Yes	X	No

Identification of major federal programs:
84.027A - IDEA B
10.553, 10.555 and 10.558 - Child Nutrition Cluster

Dollar threshold use to distinguish between Type A and Type B programs? $750,000 – Federal

Auditee qualified as low-risk auditee?		Yes	X	No

Section 2. Financial Statement Findings

Finding 2019-001 – Significant Deficiency in Internal Control over Human Resources procedures – Change in employee status.

Criteria: The human resources department enters all changes to employee status, such as change in employment status, change in pay rate and change in job position, in a timely and accurate manner.

Condition: Presently, controls over entering changes in employee status do not appear to be working as designed.

Context: We observed the following items when testing changes in employee status:

1. **Employee Termination**. During our walkthrough of controls over termination of employees, we noted one employee was terminated on March 8, 2019, but was not terminated in the District's accounting software until May 24, 2019.

2. **Employee Job Position Change.** During our testing of internal controls over payroll, we noted one employee changed from a high school position to a middle school position, which have different work-day totals. As a result, the employee was underpaid every pay period, however the amount owed to the employee was paid on the last paycheck of the school year from a compensating control from the District's accounting software.

Effect or Potential Effect: Without sufficient procedures over changes in employee status, errors are not detected timely, and the financial statements may be materially misstated.

Cause: The District's human resources office does not have sufficient controls in place over changes in employee status changes. The District had significant management turnover in the human resources office in fiscal year 2019.

Recommendation: Document the processes over changes in employee status change and implement a review process.

View of Responsible Officials: See corrective action plan prepared by the District.

Section 3. Federal Awards Findings

None

Section 4. Schedule of Prior Audit Findings and Questioned Costs

Finding 2018-001 – Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures

Condition: Presently, the CFO does not adequately review fiscal year end reconciliations, and there were several audit adjustments.

Corrective Action: The District's new Superintendent and interim CFO, both in place after fiscal year end, are working together to reorganize and properly staff the Business Office with qualified individuals that will have the depth of knowledge to remedy all of these findings and strongly concur with the audit recommendation.

Status: No issues noted in the current year audit.

Finding 2018-002 – Significant Deficiency in Internal Control over Financial Reporting – Expense Reimbursement Process

Condition: Expenses were reimbursed without proper documentation.

Corrective Action: All reimbursements will only occur after proper documentation has been submitted.

Status: No issues noted in the current year audit.

Finding 2018-003 – Significant Deficiency in Internal Control over Financial Reporting – Attendance Reports did not have evidence of review or approval

Condition: The approval process described above was eliminated in the current fiscal year.

Corrective Action Planned: The District started a review process that is evidenced by the supervisor signing off on the attendance report.

Status: No issues noted in the current year audit.

Finding 2018-004 – Compliance Finding – Expenditures Exceeded Amended Budget

Condition: Expenditures exceeded the final amended budget in four functions in the general fund and one function in the child nutrition fund.

Corrective Action Planned: The District began monitoring budgets and preparing monthly budget amendments for the Board of Trustees' approval to minimize any function being overspent at year end. The District has a very detailed purchasing procedures manual and has expressed the expectation to all budget managers that they will comply to encumbering funds by issuance of a purchase order when appropriate which ensures budgeted funds are available for their acquisition of supplies, materials, or services.

Status: No issues noted in the current year audit.

Finding 2018-005 – Significant Deficiency in Internal Control over Compliance

Condition: During our testing of suspension and debarment, we were unable to verify that the District checked for suspension and debarment.

Corrective Action Planned: The District will comply with this requirement and check for and document all vendor searches to assure current approved vendors and potential new vendors have not been suspended or debarred.

Status: No issues noted in the current year audit.

Corrective Action Plan (prepared by the District)

Finding 2019-001 – Significant Deficiency in Internal Control over Human Resources procedures – Change in employee status.

Corrective Action Planned: Employees of the District who resign of their own accord are required to submit a letter of resignation to the school principal or human resources (HR) and upload their resignation into the Employee Self Service System. The termination process will allow termination/separation notification to HR and supervisor to prevent overpayment of wages not earned.

HR internal processing includes a termination checklist to ensure termination dates are in the system so there would not be additional wages paid. At the time of the error, there was one individual that processed terminations and separations were not required to go through the system. Since then we have had several employees trained to process terminations.

Anticipated completion date: Immediately
Auditee contact person: Chief of Human Resources

DesoTo Independent School District

Exhibit K-1

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

(1) Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct programs:			
Academies for Academic Enhancement and Excellence	84.165A	U165A170043	$ 3,216,213
Gear Up	84.334S	P334A140055	887,581
Investing in Innovation Fund	84.411C	U411C150127	519,044
Total direct programs			4,622,838
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101057906	26,934
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101057906	1,588,937
Total Title I, Part A			1,615,871
Special Education Cluster (IDEA):			
IDEA - Part B, Formula*	84.027A	186600010579066000	100,120
IDEA - Part B, Formula*	84.027A	196600010579066000	1,607,655
IDEA - Part B, Preschool*	84.173A	196610010579066000	4,527
IDEA - Part B, Discretionary*	84.027A	196600060579066000	23,632
Total Special Education Cluster (IDEA)			1,735,934
Career and Technical - Basic Grant	84.048A	19420006057906	108,238
Title III, Part A - Limited English Proficient	84.365A	18671001057906	4,800
Title III, Part A - English Language Acquisition	84.365A	19671001057906	46,127
Total Title III, Part A			50,927
21st Century	84.287	196950247110007	1,514,558
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	19694501057906	158,595
ESEA, Title IV, Part A	84.424A	18680101057906	21,783
Summer School LEP	84.369A	69551802	4,833
Workforce Innovation and Opportunity Act (WIOA) Cluster:			
2016-2018 Adult Program	17.258	173918017110010	93,102
Total WIOA Cluster			93,102
Total passed through State Department of Education			5,303,841
TOTAL U.S. DEPARTMENT OF EDUCATION			9,926,679
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Department of Education:			
Child Care and Development Block Grant Cluster:			
Child Care and Development Block Grant	93.575	173921017110012	138,512
Total passed through State Department of Education			138,512
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			138,512

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the State Department of Agriculture:			
National School Lunch Prog. - Non-Cash Assistance*	10.555	71301801	$ 406,332
Passed through the Texas Department of Education:			
Child Nutrition Cluster:			
National School Breakfast Program*	10.553	71401801	1,304,931
National School Lunch Program - Cash Assistance*	10.555	71301801	3,240,656
Total Child Nutrition Cluster			4,951,919
Passed through the State Department of Agriculture:			
Child & Adult Care Food Program - Cash Assistance	10.558	CEID: 00277	639,108
Total passed through the State Department of Agriculture			5,591,027
TOTAL U.S. DEPARTMENT OF AGRICULTURE			5,591,027
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 15,656,218

* Denotes major federal program

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

The District participates in numerous State and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

The following table reconciles total expenditures per the schedule of expenditures of federal awards (Exhibit K-1) to the federal program revenues per Exhibit C-3:

Total expenditures of federal awards per Exhibit K-1	$	15,656,218
SHARS revenue		940,359
JROTC		296,312
Total federal programs revenue per Exhibit C-3	$	16,892,889

The District has elected not to use the 10% de minimis indirect cost rate.

DeSoto Independent School District **Exhibit L-1**

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended June 30, 2019

Data Control Codes			Response
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?		No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?		Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?		No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?		No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?		Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?		Yes
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end:	$	68,592,047
SF11	Net Pension Assets (1920) at fiscal year-end.	$	-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	$	30,689,299

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