

OFFICIAL STATEMENT
Dated January 28, 2021

NEW ISSUE – BOOK ENTRY ONLY

Enhanced/Unenhanced Ratings:
S&P: “AAA” / “A”
PSF: Guaranteed

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

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

The District has not designated the Bonds as “Qualified Tax-Exempt Obligations” for Financial Institutions.



\$9,795,000
ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Fisher and Jones Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021

Dated Date: February 15, 2021
Interest to Accrue from Date of Delivery

Due: as shown on page -ii-

AUTHORITY FOR ISSUANCE ... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Roby Consolidated Independent School District (the “District”) on November 3, 2020 (the “Election”), and a bond order (the “Bond Order”) to be passed by the Board of Trustees of the District on January 28, 2021 authorizing the issuance of the Bonds. The Bonds are direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See “THE BONDS - Authority for Issuance” herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from their date of initial delivery to the Underwriter (as described below) will be payable on February 15 and August 15 of each year, commencing February 15, 2022, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof.

Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds (as applicable) will be payable by the Paying Agent/Registrar, initially UMB Bank, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

PURPOSE ... Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition and equipment of school buildings in the district (including, but not limited to, the rehabilitation, renovation, expansion and/or improvement of school buildings in the district, the acquisition and update of technology equipment to be used for school security purposes, and the acquisition and update of technology infrastructure integral to the construction of a facility), and (ii) to pay for the costs of issuance of the Bonds. See “PLAN OF FINANCING” herein.

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

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

The Bonds are offered for delivery when, as and if issued and received by the underwriter named below (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Sara Leon & Associates, PLLC, Austin, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel. See “APPENDIX C – FORMS OF CO-BOND COUNSEL’S OPINION” hereto. Certain matters will be passed upon for the Underwriter by its counsel, Locke Lord LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC about February 25, 2021 (the “Date of Delivery”).

STEPHENS INC.

**MATURITY SCHEDULE, PRINCIPAL AMOUNTS AND MATURITY VALUES, INTEREST RATES, INITIAL YIELDS,
CUSIP NUMBERS, AND REDEMPTION PROVISIONS**

\$9,795,000

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Fisher and Jones Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**

CUSIP No. Prefix 771180⁽¹⁾

\$8,075,000 Serial Bonds

Maturity Date (8/15)	Principal (\$)	Interest Rate (%)	Initial Yield (%)⁽²⁾	CUSIP No. Suffix ⁽¹⁾	Maturity Date (8/15)	Principal (\$)	Interest Rate (%)	Initial Yield (%)⁽²⁾	CUSIP No. Suffix ⁽¹⁾
2022	455,000	3.000	0.170	DM5	2032	465,000	3.000	1.060 ⁽²⁾	DX1
2023	565,000	3.000	0.210	DN3	2033	460,000	3.000	1.120 ⁽²⁾	DY9
2024	550,000	3.000	0.250	DP8	2034	460,000	3.000	1.200 ⁽²⁾	DZ6
2025	535,000	3.000	0.300	DQ6	2035	455,000	3.000	1.260 ⁽²⁾	EA0
2026	525,000	3.000	0.380	DR4	2036	250,000	3.000	1.310 ⁽²⁾	EB8
2027	510,000	3.000	0.490	DS2	2037	260,000	3.000	1.370 ⁽²⁾	EC6
2028	500,000	3.000	0.630	DT0	***	***	***	***	***
2029	490,000	3.000	0.770	DU7	2044	315,000	2.000	2.000 ⁽²⁾	EF9
2030	480,000	3.000	0.900 ⁽²⁾	DV5	2045	325,000	2.000	2.030 ⁽²⁾	EG7
2031	475,000	3.000	1.000 ⁽²⁾	DW3					

\$1,720,000 Term Bonds

\$820,000 3.000% Term Bond Due August 15, 2040 to yield 1.470%⁽²⁾ CUSIP No. Suffix ED4

\$900,000 3.000% Term Bond Due August 15, 2043 to yield 1.580%⁽²⁾ CUSIP No. Suffix EE2

(Interest to accrue from the Date of Delivery)

The District reserves the right to redeem the Bonds maturing on and after August 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2044, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2045, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on August 15 in the years 2040, and 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter, the District, nor the Financial Advisor (defined herein) is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated to first optional redemption date.

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
112 North Concho St.,
Roby, Texas 79543

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Chris Estes	President	November, 2024	Self-Employed in Agriculture
Kevin Kelly	Vice President	November, 2022	Nurse Practitioner
Dakota Rasberry	Secretary	November, 2022	Agriculture Technician
Danny Carrion	Member	November, 2024	Crew Chief
Carter Edmondson	Member	November, 2024	Pastor
Mark Harris	Member	November, 2022	Strategic Account Manager
Stormy Rasberry	Member	November, 2022	Salesman

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Jason Carter	Superintendent
Kandra Lakey	Business Manager

CONSULTANTS AND ADVISORS

Auditors	James E. Rodger and Company, P.C., Hamlin Texas
Co-Bond Counsel	Sara Leon & Associates, PLLC, Austin, Texas and Orrick, Herrington & Sutcliffe LLP, Houston, Texas
Financial Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

Jason Carter
Roby Consolidated Independent School District
112 North Concho St.,
Roby, Texas 79543
(325) 776-2222
jason.carter@robby.esc14.net

John Blackburn
Live Oak Public Finance, LLC
1515 S Capital of Texas Hwy #206
Austin, TX 78746
(512) 726-5547
jblackburn@liveoakpf.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

USE OF INFORMATION IN THE OFFICIAL STATEMENT	iv	AD VALOREM TAX PROCEDURES	30
TABLE OF CONTENTS	v	Valuation of Taxable Property	30
OFFICIAL STATEMENT SUMMARY		State Mandated Homestead Exemptions	30
INTRODUCTION	1	Local Option Homestead Exemptions	30
INFECTIOUS DISEASE OUTBREAK – COVID-19	1	State Mandated Freeze on School District Taxes	31
EXPOSURE TO OIL AND GAS INDUSTRY	3	Personal Property	31
PLAN OF FINANCING	3	Freeport and Goods-In-Transit Exemptions	31
Purpose	3	Other Exempt Property	31
Sources and Uses of Funds	3	Temporary Exemption for Qualified Property Damaged by a Disaster	31
THE BONDS	4	Tax Increment Reinvestment Zones	32
Description of the Bonds	4	Tax Limitation Agreements	32
Authority for Issuance	4	District and Taxpayer Remedies	32
Use of Proceeds	4	Levy and Collection of Taxes	32
Security and Source of Payment	5	District's Rights in the Event of Tax Delinquencies	33
Permanent School Fund Guarantee	5	THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT	33
Redemption Provisions of the Bonds	5	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS	34
Notice of Redemption	6	Litigation Relating to the Texas Public School Finance System	34
Defeasance	6	2021 Legislation	35
Amendments to Bond Order	7	CURRENT PUBLIC SCHOOL FINANCE SYSTEM	35
Default and Remedies	7	Overview	35
Payment Record	8	Local Funding for School Districts	36
Legality	8	State Funding for School Districts	37
Delivery	8	Local Revenue Level in Excess of Entitlement	39
Future Issues	8	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT	40
REGISTRATION, TRANSFER AND EXCHANGE	8	TAX RATE LIMITATIONS	40
Paying Agent/Registrar	8	M&O Tax Rate Limitations	40
Record Date for Interest Payment	8	I&S Tax Rate Limitations	40
Registration, Transferability and Exchange	8	Public Hearing and Voter-Approval Tax Rate	41
Limitation on Transfer of Bonds	9	DEBT LIMITATIONS	42
BOOK-ENTRY-ONLY SYSTEM	9	EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS	42
Use of Certain Terms in Other Sections of This Official Statement	10	INVESTMENT POLICIES	43
Effect of Termination of Book-Entry-Only System	11	Legal Investments	43
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM	11	LEGAL MATTERS	44
History and Purpose	11	Litigation	45
2019 Texas Legislative Session	13	TAX MATTERS	45
The Total Return Constitutional Amendment	13	Tax Exemption	45
Management and Administration of the Fund	15	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS	46
Capacity Limits for the Guarantee Program	16	CONTINUING DISCLOSURE	47
The School District Bond Guarantee Program	18	Annual Reports	47
The Charter District Bond Guarantee Program	18	Notice of Certain Events	47
2017 Legislative Changes to the Charter District Bond Guarantee Program	20	Limitations and Amendments	48
Charter District Risk Factors	21	OTHER PERTINENT INFORMATION	48
Infectious Disease Outbreak	22	Authenticity of Financial Information	48
Ratings of Bonds Guaranteed Under the Guarantee Program	23	Registration and Qualification of Bonds for Sale	48
Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020	24	Municipal Bond Rating	49
2011 and 2019 Constitutional Amendments	26	Financial Advisor	49
Other Events and Disclosures	27	Underwriting	49
PSF Continuing Disclosure Undertaking	27	Forward Looking Statements	50
Annual Reports	28	Information from External Sources	50
Event Notices	28	Authorization of the Official Statement	51
Availability of Information	29		
Limitations and Amendments	29		
Compliance with Prior Undertakings	29		
SEC Exemptive Relief	29		
APPENDIX A – SELECTED FINANCIAL INFORMATION OF THE DISTRICT	A-1		
APPENDIX B – AUDITED FINANCIAL STATEMENTS	B-1		
APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION	C-1		

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The District is a political subdivision of the State of Texas (the "State") located in Fisher and Jones Counties, Texas, located 60 miles northwest of Abilene, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). The members of the Board serve staggered four-year terms with elections being held in November of even-numbered years. 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 advisers. The District is approximately 328.7 square miles in area.
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, the Election, and that certain Bond Order passed by the Board on January 28, 2021 (the "Bond Order"). The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Authority for Issuance."
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "PLAN OF FINANCING – Description of the Bonds").
DATED DATE	February 15, 2021.
PAYMENT OF INTEREST ...	Interest on the Bonds will accrue from the date of delivery and will be payable until stated maturity or prior to redemption on February 15 and August 15 of each year, commencing February 15, 2022 (see "THE BONDS – Description of the Bonds").
OPTIONAL REDEMPTION .	The District reserves the right to redeem the Bonds maturing on and after August 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2044, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2045, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on August 15 in the years 2040, and 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of the Orrick, Herrington & Sutcliffe LLP, Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" and "APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION".
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is UMB Bank, NA, Dallas, Texas.
MUNICIPAL BOND RATING ...	The Bonds are rated "AAA" by S&P Global Ratings (S&P) without regard to credit enhancement, and "A" by S&P by virtue of the guarantee of the Permanent School Fund of the State. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition and equipment of school buildings in the district (including, but not limited to, the rehabilitation, renovation, expansion and/or improvement of school buildings in the district, the acquisition and update of technology equipment to be used for school security purposes, and the acquisition and update of technology infrastructure integral to the construction of a facility) and (ii) to pay for the costs of issuance of the Bonds. See "PLAN OF FINANCING" herein.
BOOK-ENTRY ONLY SYSTEM	The definitive Bonds will be registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds (as applicable) will be payable by the Paying Agent/Registrar, initially UMB Bank, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about February 25, 2021.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Sara Leon & Associates, PLLC, Austin, Texas and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Co-Bond Counsel. See "APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION" herein.

OFFICIAL STATEMENT

Relating to

\$9,795,000

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Fisher and Jones Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, and C hereto, provides certain information regarding the issuance of the \$9,795,000 Roby Consolidated Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2021 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 3, 2020 (the "Election"), and that certain bond order (the Bond Order") to be adopted by the District's Board of Trustees on January 28, 2021. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Authority for Issuance" herein.

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

Included in this Official Statement are descriptions of the Bonds, the Bond Order and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Roby Consolidated Independent School District, 112 North Concho St., Roby, Texas 79543, Attention: Business Manager and, during the offering period from the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S Capital of Texas Hwy #206, Austin, TX 78746, Attention: John Blackburn, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314 and will be available through its Electronic Municipal Market Access ("EMMA") System. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

Description of the District

The District is a political subdivision of the State located in Fisher and Jones Counties, Texas, located 60 miles northwest of Abilene, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in November of even-numbered years. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District is approximately 328.4 square miles in area.

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 (the "President") 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, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judges of Fisher and Jones Counties, also declared a local state of disaster. 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 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 issued a series of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor. 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. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

For the 2019-2020 school year, COVID-19 related school closings and/or absenteeism did not impact ADA calculations and school funding so long as a school district committed to support students instructionally while they were at home. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

TEA has issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address campus and virtual instruction. Previous guidance addressed administrative and extracurricular activities and school visits. Within the guidance, TEA instructed schools to provide parental and public notices of the school district's plan for on-campus instruction (posted one week prior to the commencement of in person education) in order to reduce COVID-19 within their facilities and confirmed the attendance requirements for promotion (which may be completed by virtual education). The guidance further detailed screening mechanisms, identification of symptoms, use of non-classroom spaces, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first two six weeks of Foundation School Program reporting. Specifically, if ADA counts during those two six weeks are more than 1% less than the first two six weeks of the 2019-2020 school year, the first two six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

For the 2020-2021 school year, which commenced on August 19, 2020, the District is offering two instructional models: on campus face-to-face instruction and remote online learning. Remote online learning utilizes both synchronous instruction and asynchronous instruction, depending on the grade level and course. Students can elect to change instructional models at the end of each grading period. During the first grading period, approximately 275 of the students chose on campus instruction and 25 of the students chose remote online learning.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation

strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. 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 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 financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. See "AD VALOREM PROPERTY TAXATION." **The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.**

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

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

EXPOSURE TO OIL AND GAS INDUSTRY

Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater West Texas area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the District, resulting in a reduction in property tax revenue. 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.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition and equipment of school buildings in the district (including, but not limited to, the rehabilitation, renovation, expansion and/or improvement of school buildings in the district, the acquisition and update of technology equipment to be used for school security purposes, and the acquisition and update of technology infrastructure integral to the construction of a facility), and (ii) to pay for the costs of issuance of the Bonds. See "PLAN OF FINANCING – Sources and Uses of Funds".

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$9,795,000.00
Reoffering Premium on the Bonds	1,203,646.95
TOTAL SOURCES	\$10,998,646.95
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$10,800,000.00
Costs of Issuance and Rounding Amount	133,191.93
Underwriter's Discount	65,455.02
TOTAL USES	\$10,998,646.95

THE BONDS

Description of the Bonds

The Bonds will be dated February 15, 2021 (the "Dated Date") and mature on August 15 in each of the years and in the amounts shown on the inside cover page. Interest on the Bonds will accrue from the date of initial delivery (the "Date of Delivery"), will be payable on February 15, 2022, and each February 15 and August 15 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity.

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

The definitive Bonds will initially be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined above) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State particularly Sections 45.001 and 45.003(b)(1), Texas Government Code, as amended, the Election, and the Bond Order.

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) are anticipated to represent the total amount of voted bonds (described below) approved at the Election. Following the issuance of the Bonds, the District anticipates that it will have no voted but unissued bonds as further described below. See "Table 7 – Authorized but Unissued Bonds" in APPENDIX A hereto. A summary of the bonds authorized at said Election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
The construction, acquisition and equipment of school buildings in the district (including, but not limited to, the rehabilitation, renovation, expansion and/or improvement of school buildings in the district, the acquisition and update of technology equipment to be used for school security purposes, and the acquisition and update of technology infrastructure integral to the construction of a facility).	\$10,800,000	\$0	\$10,800,000*	\$0

**Includes premium allocations that the District is applying against voted authorization.*

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"; see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS"; see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM". Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas.

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

Optional Redemption

The District reserves the right to redeem the Bonds maturing on and after August 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2044, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The District also reserves the right to redeem the Bonds maturing on August 15, 2045, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on August 15 in the years 2040, and 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.

Mandatory Redemption

August 15 in the years 2040, and 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity from money required to be deposited in the Bond Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in each of the years as set forth below:

Term Bonds Stated to Mature on August 15, 2040		Term Bonds Stated to Mature on August 15, 2043	
<u>Year</u>	<u>Principal Amount (\$)</u>	<u>Year</u>	<u>Principal Amount (\$)</u>
2038	265,000	2041	290,000
2039	275,000	2042	300,000
2040*	280,000	2043*	310,000
* Stated Maturity			

The principal amount of Term Bonds of a stated maturity required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the Issuer, by the principal amount of any Term Bonds of the same maturity which, at least 50 days prior to a mandatory redemption date (1) shall have been acquired by the Issuer at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the Issuer at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

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

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

DTC Redemption Provisions

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

Defeasance

The Bond Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to

investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

There is no assurance that current State 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 Bond 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 as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

After firm banking and financial arrangements for the defeasance of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Bonds, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Amendments to Bond Order

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

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court.

(which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.) The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Co-Bond Counsel, Sara Leon & Associates, PLLC, Austin, Texas and Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

Delivery

When issued; anticipated to occur on or about February 25, 2021.

Future Issues

The District does not anticipate the issuance of additional ad valorem tax-supported debt in calendar year 2021.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, NA, Dallas, Texas. The Bond Order provides for the District's right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date for Interest Payment

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on any Bond is the close of business on the last business day of the month next preceding each interest payment date.

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

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying

Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (i) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC

and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, nor is it to be construed as a representation of, the District, the Financial Advisor or the Underwriter.

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, 2020, the General Land Office (the "GLO") managed approximately 15% 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 2020 SBOE distributions to the ASF amounted to an estimated \$347 per student and the total amount distributed to the ASF by the SBOE and SLB was \$1,701.7 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, 2020, when 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, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and 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, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 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 changed 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 are 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 July 2020. 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. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition 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, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S. Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

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. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income, and that asset allocation is expected to be fully implemented in the first calendar quarter of fiscal year 2022. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 10%, 5% and 25%, respectively. At August 31, 2020, the market value of the liquidity account was \$4,050,631,451, of which 0.00% was equity investments, 39.43% was fixed income investments and 60.57% was cash.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be 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, 2020, the Fund’s financial assets portfolio was invested as follows: 37.67% in public market equity investments; 14.39% in fixed income investments; 9.83% in absolute return assets; 13.31% in private

equity assets; 8.66% in real estate assets; 3.24% in risk parity assets; 5.72% in real return assets; 6.83% in emerging market debt; and 0.35% in unallocated cash, exclusive of the liquidity account.

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 within 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 \$123,509,204,770 on August 31, 2019 to \$128,247,002,583 on August 31, 2020 (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 Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. 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 January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three of such campuses are not currently serving students for various reasons)." Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. 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 6.15% in March 2020. 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 CDBG 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 CDBG 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 CDBG 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% of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBG Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% 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% 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 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve Fund contained \$43,875,326, which represented approximately 1.69% 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 is 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, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted 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, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA's guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented "hold harmless" funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance>.

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⁾
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	35,288,344,219	46,464,447,981
2020 ⁽²⁾	36,642,000,738	46,764,059,745

⁽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, 2020, 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, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At October 31, 2020, the PSF had a book value of \$37,040,181,304 and a market value of \$46,902,584,511. October 31, 2020 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 ⁽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, 2020 (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 \$139,992,934,246, of which \$49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were \$90,336,680,245 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of October 31, 2020, 94.88% of Program capacity was available to the School District Bond Guarantee Program and 5.12% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2016	3,244	\$67,342,303,445	35	\$ 961,025,000	3,279	\$68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 ⁽²⁾	3296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

(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 October 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$91,697,104,332 of bonds guaranteed under the Guarantee Program, representing 3,340 school district issues, aggregating \$89,106,892,332 in principal amount and 65 charter district issues, aggregating \$2,590,212,000 in principal amount. At October 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$5,702,716,863 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020

The following discussion is derived from the Annual Report for the year ended August 31, 2020, 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) and, with respect to the liquidity account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was \$46.7 billion, an increase of \$0.2 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 updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). 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, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (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 -12.27%, 2.49%, and 5.15%, 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, 2020, 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, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2020, totaled \$2.0 billion in real estate investments and \$2.4 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, 2020, the remaining commitments totaled approximately \$2.73 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 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, under-performing the benchmark index of 8.54% by approximately 104 basis points. The Liquid(SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid(SBOE) asset classes produced an investment return, net of fees, of 2.35%, out-performing the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2.0 billion, a decrease of \$1.7 billion from fiscal year 2019 earnings of \$3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, 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 5.6% for the fiscal year ending August 31, 2020. 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 2019 and 2020, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled \$300 and \$600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed \$90.3 billion in bonds issued by 872 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 7,789 school district and charter district bond issues totaling \$202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program

totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.9 billion or 7.0%. The State Capacity Limit increased by \$4.7 billion, or 3.8%, during fiscal year 2020 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 2020 as the IRS Limit was reached in a 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 2.974% Distribution Rate equating to \$2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of \$92.2 million. 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. In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of \$875 million for the biennium.

Changes in the Distribution Rate for each biennial period have 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 another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from 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 or SLB 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 the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

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, 2020, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org, and the continuing disclosure filings of the TEA with respect to the PSF

can be found at <https://emma.msrb.org/IssueView/Details/ER355077> or by searching for "Texas Permanent School Fund Bond Guarantee Program" on EMMA.

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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 Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Fisher County and Jones County Appraisal Districts (the "Appraisal Districts"). Except as generally described below, the Appraisal Districts are required to appraise all property within the Appraisal Districts 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 Districts are 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 appraisers of the Appraisal Districts consider 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 Districts 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" herein.

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney

General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal Districts have the responsibility for appraising property in the District as well as other taxing units in Fisher and Jones Counties, respectively.

The Appraisal Districts are governed by a board of five directors appointed by members of the governing bodies of various political subdivisions within Fisher and Jones Counties.

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

The District provides the state mandated exemption to the market value of residence homesteads of \$25,000.

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

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

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

The District's taxes are collected by Fisher County Tax Assessor Collector and Jones County Tax Assessor, respectively.

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

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

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

The District does not tax freeport property.

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

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

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

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

The District has entered into an Economic Development Agreement authorized under Chapter 313, Texas Tax Code, as amended (a "Chapter 313 Agreement"), limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2020 and extending through tax year 2029 with Mesquite Star Special, LLC.

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.

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”.

2021 Legislation

On January 12, 2021, the 87th Texas Legislature convened in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the District and its finances. The District makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.

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. 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 amended, 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 in excess of entitlement, 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, now the amount of excess revenues of a Chapter 49 district is determined 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 (6) options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute

either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District's wealth per student for the 2020-2021 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will 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.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held in accordance with Chapter 20, Texas Education Code (now codified at Section 45.003, 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 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. The Bonds are issued as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has not utilized projected values or State assistance to satisfy the \$0.50 test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

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

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements – Note T.10. – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements, Note T.12. – Retiree Health Plan" in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto.

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

will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "CHANGE IN NET ASSETS" in APPENDIX B herein. GASB Statement No. 68 applies only to pension benefits and does not apply to OPB or TRS-Care related liabilities. At the conclusion of the 2019-2020 fiscal year, the District had a net pension liability of \$845,187.

See "Note 25. Prior Period Adjustment" in the audited financial statements of the District for the year ended August 31, 2020 as set forth in Appendix B hereto for information related to the District's adoption of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and the related prior period adjustment.

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

INVESTMENT POLICIES

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

Legal Investments

Available District funds are invested as authorized by State 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 State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the Public Funds Investment Act (Chapter 2256, Government Code), as amended (the "PFIA"), the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates 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 and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, 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; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated

maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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 State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Co-Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The forms of Co-Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Co-Bond Counsel is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Locke Lord, LLP Austin, Texas. The legal fee to be paid to counsel to the Underwriter for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Co-Bond Counsel, such firms have reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Future Issues," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS", "LEGAL MATTERS" (excluding the information under the subcaption "Litigation," as to which no

opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the Bonds, Co-Bond Counsel have been engaged by and only represent the District with respect to the issuance of the Bonds. The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

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

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

TAX MATTERS

Tax Exemption

In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Tax Counsel ("Tax Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Tax Counsel is set forth in APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Tax Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Tax Counsel is expected to express no opinion.

The opinion of Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no

review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

CONTINUING DISCLOSURE

In the Bond Order, the District has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement while 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 the timely notice of specified events to the MSRB via EMMA through an internet website accessible at www.emma.msrb.org.

Annual Reports

Currently, the only information that is customarily prepared by the District and publicly available consists of an annual audit of the District's financial statements. The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by 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 Appendix A tables 1 through 5 and tables 7 through 12 to this Official Statement but only to the extent that such information is customarily prepared by the District and publicly available. The District will update and provide this information within 6 months after the end of each fiscal year.

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

The District's current fiscal year end is August 31. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after 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 a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (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 any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

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.

Neither the Bonds nor the Bond Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

Limitations and Amendments

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

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

Compliance with Prior Agreements

The District has, during the last five (5) years, complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions

contained therein, nor have the Bonds been registered or qualified under the securities act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

Municipal Bond Rating

The Bonds are rated "AAA" by S&P Global Ratings (S&P) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds are rated "A" by S&P without regard to credit enhancement.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

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

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

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on pages ii and iii herein, less an Underwriter's discount of \$65,455.02. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

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

In the ordinary course of their various business activities, the Underwriter and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the

accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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

Use of Audited Financial Statements

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

Forward Looking Statements

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

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

Information from External Sources

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

Remainder of page left intentionally blank.

Authorization of the Official Statement

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

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

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

/s/ Chris Estes
President, Board of Trustees

ATTEST:**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

/s/ Dakota Rasberry
Secretary, Board of Trustees

APPENDIX A

Selected Financial Information Regarding the District

TABLE 1 - Valuation, Exemption & Tax Supported Debt ⁽¹⁾**District Direct Debt**

2020 Tax Year Total Valuation	\$574,746,338
Less: Exemptions and Deductions	(222,888,068)
2020 Tax Year Net Taxable Valuation	351,858,270
Unlimited Tax Bonds Outstanding	\$0
Plus: The Bonds	9,795,000
Total Unlimited Tax Bonds	\$9,795,000
Less: Interest & Sinking Fund Balance ⁽³⁾	\$0
Net General Obligation ("G.O.") Debt	\$9,795,000
Ratio of Net G.O. Debt to Net Taxable Valuation	2.78%
Estimated District Population ⁽⁴⁾	1,630
Per Capita Net Taxable Valuation	\$215,864
Per Capita Net G.O. Debt	\$6,009

⁽¹⁾ Source: Fisher County and Jones County Appraisal Districts

⁽²⁾ Valuation includes a \$195,890,940 adjustment added to the Fisher County Appraisal District ("FCAD") valuation. Such adjustment represents the appraised valuation of property associated with the District's Chapter 313 Agreement that is removed from the District's taxable assessed valuation for maintenance tax purposes. Because the 2022 tax year will be the first year the District will levy a debt service tax, FCAD could not certify an Interest and Sinking Fund taxable value due to FCAD's system limitations. However, FCAD did confirm the appraised valuation for the property associated with the Chapter 313 Agreement, and such confirmed value has been added back, which equals the valuation above. The appraised valuation will be added to the District's taxable assessed valuation in the first year a debt service tax is levied by the District, which the District expects to occur for tax year 2022. See "THE TAX CODE AS APPLIED TO THE DISTRICT" in the forepart of this Official Statement.

⁽³⁾ Source: District's unaudited financial records, November 30, 2020

⁽⁴⁾ Source: The Municipal Advisory Council of Texas

TABLE 2 - Historical Net Taxable Assessed Valuation ⁽¹⁾

	Tax Year 2020	Tax Year 2019	Tax Year 2018	Tax Year 2017	Tax Year 2016
Gross Value	\$574,746,338	\$346,671,688	\$341,626,120	\$350,904,550	\$298,312,470
Less: Exemptions	(222,888,068)	(214,877,428)	(215,050,840)	(229,606,720)	(199,590,720)
Net Taxable Value ⁽²⁾	\$351,858,270	\$131,794,260	\$126,575,280	\$121,297,830	\$98,721,750

⁽¹⁾ Source: Fisher County and Jones County Appraisal Districts

⁽²⁾ See Table 1 discussion of Chapter 313 Agreement for Tax Year 2020.

TABLE 3 - Valuation and Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Net Taxable Assessed		Net Taxable AV Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported	
		Valuation ⁽²⁾				Debt to Assessed Valuation	Tax Supported Debt Per Capita
2017	1,401	\$ 98,721,750	\$	70,465	\$ -	0.00%	\$ -
2018	1,439	121,297,830		84,293	-	0.00%	-
2019	1,385	126,575,280		91,390	-	0.00%	-
2020	1,424	131,794,260		92,552	-	0.00%	-
2021	1,630	351,858,270		215,864	9,795,000 ⁽³⁾	2.78%	6,009

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Source: Fisher County and Jones County Appraisal Districts See table 1 discussion of Chapter 313 Agreement for Fiscal Year Ended 8/31.

⁽³⁾ Includes the Bonds.

TABLE 4 - Tax Rate, Levy and Collection History ⁽¹⁾

Fiscal Year Ended 8/31	Total Tax Rate		Local Maintenance		I&S Fund ⁽²⁾	Tax Levy	Percent Collections	
							Current	Total
2017	\$	1.1700	\$	1.1700	\$0.0000	\$ 1,155,044	96.88%	98.67%
2018		1.1700		1.1700	0.0000	1,419,185	98.24%	99.76%
2019		1.1700		1.1700	0.0000	1,480,931	98.39%	99.16%
2020		1.0684		1.0684	0.0000	1,408,090	98.19%	99.33%
2021		0.9630		0.9630	0.0000	1,503,342	In process of collecting	

⁽¹⁾ Source: Fisher County and Jones County Appraisal Districts

⁽²⁾ For FYE 2022, the District plans to set an I&S tax rate sufficient to meet debt service requirements.

Remainder of page left intentionally blank.

TABLE 5 - Largest Taxpayers, 2020 ⁽¹⁾⁽²⁾

Taxpayer Name	Property Type	AV	% of Total
Mesquite Star Special LLC	Wind Farm	\$215,890,940 ⁽³⁾	61.36%
Lone Star Transmission LLC	Electric Utility	26,849,680	7.63%
Gunn Oil Company	Oil/Gas	14,203,550	4.04%
Sunrise II Pipeline LLC	Oil/Gas Pipeline	5,153,990	1.46%
ETC Texas Pipeline LTD	Oil/Gas Pipeline	2,577,230	0.73%
Clear Fork INC	Oil/Gas	2,258,770	0.64%
AEP Texas INC	Electric Utility	2,193,510	0.62%
Bridgetex Pipeline Company LLC	Oil/Gas Pipeline	2,082,870	0.59%
Pyron Wind	Wind Farm	1,887,900	0.54%
Xergen LLC	Oil/Gas	1,293,600	0.37%
Top 10 Totals:		\$274,392,040	77.98%

⁽¹⁾ Source: Fisher County and Jones County Appraisal Districts and District Records

⁽²⁾ As shown in the table above, the total combined top ten taxpayers in the District currently account for over 77% of the District's tax base. In addition, the top taxpayer in the District currently accounts for 61.36% of the District's tax base, thereby creating a concentration risk for the District. The valuation of windmills, wind farms, and electric utilities within the State (such as those comprising a portion of the District's tax base), as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; electric utilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Default and Remedies", "AD VALOREM TAXATION - The Tax Code as Applied to the District", "THE BONDS – Bondholders' Remedies" and "AD VALOREM PROPERTY TAXATION – Penalties and Interest" herein.

⁽³⁾ The appraised valuation represent the full valuation of Mesquite Star Special LLC. \$20,000,000 of the appraised valuation is the agreed upon limitation upon the appraised property value of Mesquite Star Special LLC pursuant to the Agreement for Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes between the District and Mesquite Star Special, LLC, dated as of April 9, 2018. For a discussion of tax limitation agreements, See "AD VALOREM TAX PROCEDURES – Tax Limitation Agreements" in the forepart of this Official Statement.

TABLE 6 - Estimated Overlapping Debt ⁽¹⁾

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Fisher County	12/31/2021	\$5,325,000	32.37%	1,723,703
Jones County	12/31/2021	\$5,335,000	0.46%	24,541
City of Roby	12/31/2021	250,000	100.00%	250,000
Estimated (Net) Overlapping Debt				1,998,244
Roby CISD ⁽²⁾	2/25/2021	\$9,795,000	100.00%	\$9,795,000
Total Direct & Estimated Overlapping Debt				\$11,793,244
Total and Overlapping Debt as a % of 2020 Certified Taxable Assessed Valuation				3.35%
Total and Overlapping Debt as a Per Capita				\$8,282

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bonds.

TABLE 7 - Tax Supported Debt Service Requirements

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds			New Total Debt Service Requirements
		Principal	Interest	Total	
2022	-	\$ 455,000	\$ 423,190	\$ 878,190	\$ 878,190
2023	-	565,000	273,800	838,800	838,800
2024	-	550,000	256,850	806,850	806,850
2025	-	535,000	240,350	775,350	775,350
2026	-	525,000	224,300	749,300	749,300
2027	-	510,000	208,550	718,550	718,550
2028	-	500,000	193,250	693,250	693,250
2029	-	490,000	178,250	668,250	668,250
2030	-	480,000	163,550	643,550	643,550
2031	-	475,000	149,150	624,150	624,150
2032	-	465,000	134,900	599,900	599,900
2033	-	460,000	120,950	580,950	580,950
2034	-	460,000	107,150	567,150	567,150
2035	-	455,000	93,350	548,350	548,350
2036	-	250,000	79,700	329,700	329,700
2037	-	260,000	72,200	332,200	332,200
2038	-	265,000	64,400	329,400	329,400
2039	-	275,000	56,450	331,450	331,450
2040	-	280,000	48,200	328,200	328,200
2041	-	290,000	39,800	329,800	329,800
2042	-	300,000	31,100	331,100	331,100
2043	-	310,000	22,100	332,100	332,100
2044	-	315,000	12,800	327,800	327,800
2045	-	325,000	6,500	331,500	331,500
Total	\$ -	\$ 9,795,000	\$ 3,200,840	\$ 12,995,840	\$ 12,995,840
Average Annual Debt Service Requirement					\$ 541,493
Maximum Debt Service Requirement					\$ 878,190

Remainder of page left intentionally blank.

TABLE 8 – Authorized but Unissued Bonds

Following the issuance of the Bonds, the District anticipates that it will have no voted but unissued bonds as further described below.

A summary of the bonds authorized at said Election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue ⁽¹⁾	Amount Remaining
The construction, acquisition and equipment of school buildings in the district (including, but not limited to, the rehabilitation, renovation, expansion and/or improvement of school buildings in the district, the acquisition and update of technology equipment to be used for school security purposes, and the acquisition and update of technology infrastructure integral to the construction of a facility).	\$10,800,000	\$0	\$10,800,000	\$0

In addition to unlimited tax bonds, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

⁽¹⁾ Includes premium allocations that the District is applying against voted authorization.

TABLE 9 - Other Obligations ⁽¹⁾

As of August 31, 2020, other obligations of the District included the following capital leases and other long-term debt:

None.

⁽¹⁾ The District's Audited Annual Financial Reports

Remainder of page left intentionally blank.

TABLE 10 - Schedule of General Fund Revenues and Expenditure History ⁽¹⁾**For Fiscal Year ended August 31,****REVENUES:**

	2020	2019	2018	2017	2016
Total Local and Intermediate Sources	\$ 1,486,498	\$ 1,536,791	\$ 1,549,030	\$ 1,205,458	\$ 1,342,682
State Program Revenues	2,536,208	2,052,474	2,470,890	2,113,529	2,020,688
Federal Program Revenues	26,571	47,986	25,210	-	-
Total Revenues	\$ 4,049,277	\$ 3,637,251	\$ 4,045,130	\$ 3,318,987	\$ 3,363,370

EXPENDITURES:

Instruction	\$ 2,058,779	\$ 1,845,040	\$ 1,777,301	\$ 1,779,033	\$ 1,733,520
Instructional Resources & Media Services	15,274	4,760	3,392	3,962	3,062
Curriculum and Instructional Staff Development	1,342	3,264	2,469	3,526	3,581
School Leadership	247,178	243,833	224,485	219,171	215,041
Guidance, Counseling & Evaluation Services	67,915	62,594	56,803	46,714	48,341
Health Services	20,184	23,918	20,172	18,406	16,312
Student Transportation	81,804	172,825	73,484	122,997	62,116
Food Services	4,256	-	-	-	-
Extracurricular Activities	142,996	249,508	316,171	225,268	244,421
General Administration	265,042	257,675	308,115	232,248	227,708
Facilities Maintenance and Operations	493,978	510,060	429,796	419,200	366,853
Data Processing Services	28,549	20,335	20,335	19,793	-
Community Services	41,071	-	-	-	-
Capital Outlay:					
Facilities, Acquisition & Construction	413,012	-	149,792	-	-
Intergovernmental:					
Payments to Fiscal Agents/Member Districts of SSA	59,190	82,429	55,607	61,176	43,753
Other Intergovernmental	64,695	73,911	71,790	61,116	68,605
Total Expenses	\$ 4,005,265	\$ 3,550,152	\$ 3,509,712	\$ 3,212,610	\$ 3,033,313

Excess (Deficiency) of Revenues	\$ 44,012	\$ 87,099	\$ 535,418	\$ 106,377	\$ 330,057
---------------------------------	-----------	-----------	------------	------------	------------

Other Financing Sources and (Uses):

Sale of Real or Personal Property	-	-	-	\$ 690	\$ 550
Transfers In	-	-	-	-	\$ 3,351
Transfers Out (Use)	(25,758)	\$ (30,388)	\$ (37,818)	(21,379)	(26,863)
Other (Uses)	-	(6,851)	-	-	-

Total Other Financing Sources and (Uses):	\$ (25,758)	\$ (37,239)	\$ (37,818)	\$ (20,689)	\$ (22,962)
--	--------------------	--------------------	--------------------	--------------------	--------------------

Net Change in Fund Balances	\$ 18,254	\$ 49,860	\$ 497,600	\$ 85,688	\$ 307,095
-----------------------------	-----------	-----------	------------	-----------	------------

Fund Balances - Beginning ⁽²⁾

	\$ 3,662,994	\$ 3,613,134	\$ 3,115,534	\$ 3,029,845	\$ 2,722,750
--	---------------------	---------------------	---------------------	---------------------	---------------------

Prior Period Adjustments	-	-	-	-	-
--------------------------	---	---	---	---	---

Fund Balances - Ending ⁽²⁾

	\$ 3,681,248	\$ 3,662,994	\$ 3,613,134	\$ 3,115,533	\$ 3,029,845
--	---------------------	---------------------	---------------------	---------------------	---------------------

⁽¹⁾ Source: The District's audited financial statements⁽²⁾ Differences in beginning and ending fund balances in FYE 2017 and 2018 due to rounding differences between fiscal years.

TABLE 11 - General Operating Fund Comparative Balance Sheet

Fiscal Year Ended August 31:	2020	2019	2018	2017	2016
ASSETS:					
Cash & Cash Equivalents	\$3,906,196	\$3,686,812	\$3,490,420	\$2,788,194	\$2,874,515
Property Taxes - Delinquent	66,504	63,556	55,800	45,677	47,175
Allowance for Uncollectible taxes (credit)	(16,626)	(15,889)	(13,950)	(11,419)	(11,794)
Receivables from Other Governments	147,294	119,368	253,160	418,030	275,508
Due from Other Funds	28,256	36,690	-	-	-
Other Receivables	-	-	530	1,777	659
Total Assets	\$4,131,624	\$3,890,537	\$3,785,960	\$3,242,259	\$3,186,063
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 11,122	\$ 9,271	\$ 27,161	\$ 4,398	\$ 36,162
Accrued Wages Payable	101,460	95,626	100,879	86,384	79,979
Due to Other Governments	285,267	72,420	-	-	-
Accrued Expenditures	2,009	1,919	1,986	1,686	1,396
Unearned Revenue	640	-	-	-	-
Total Liabilities	\$ 400,498	\$ 179,236	\$ 130,026	\$ 92,468	\$ 117,537
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	\$ 49,878	\$ 47,667	\$ 41,850	\$ 34,258	\$ 35,381
Deferred Inflow of Resources - Other	-	640	950	-	3,300
Total Deferred Inflows of Resources	\$ 49,878	\$ 48,307	\$ 42,800	\$ 34,258	\$ 38,681
FUND BALANCES:					
Restricted Fund Balances:					
Retirement of Long-Term Debt	-	-	-	-	-
Committed Fund Balance:					
Construction/Facilities Improvement	\$2,766,119	\$1,981,542	\$2,715,034	\$1,707,811	\$1,664,967
Capital Expenditures for Transportation	415,129	410,565	398,100	273,700	252,278
Committed Fund Balance - Fiscal Stabilization	-	770,887	-	634,022	612,600
Unassigned Fund Balance:	500,000	500,000	500,000	500,000	500,000
Total Fund Balances ⁽²⁾	\$3,681,248	\$3,662,994	\$3,613,134	\$3,115,533	\$3,029,845
Total Liabilities, Deferred Inflow of Resources & Fund Balances	\$4,131,624	\$3,890,537	\$3,785,960	\$3,242,259	\$3,186,063

⁽¹⁾ Source: District's audited financial statements

TABLE 12 - Current Investments ⁽¹⁾

As of 12/1/2020 the District's investable funds were invested in the following categories:

	Percent	Book Value	Market Value
Cash and Cash Equivalents	99.61%	\$ 3,992,371	\$ 3,992,371
Certificates of Deposit	0.39%	15,547	15,547
Investment Pools	0.00%	-	-
Total	100.00%	\$4,007,918	\$4,007,918

⁽¹⁾ The District's audited financial report

TABLE 13 - Tax Adequacy ⁽¹⁾

2021 Net Principal and Interest Requirements	\$0
0 Tax Rate at 98% Collection Produces	\$0
Average Net Annual Principal and Interest Requirements, 2022-2045	\$541,493
0.1571 Tax Rate at 98% Collection Produces	\$541,714
Maximum Net Principal and Interest Requirements, 2022	\$878,190
0.2547 Tax Rate at 98% Collection Produces	\$878,259

⁽¹⁾ Includes the Bonds.

TABLE 14 - Interest and Sinking Fund Budget Projection ⁽¹⁾

Interest & Sinking Fund Balance, 8/31/2021		\$0
Estimated Tax Supported Debt Service Requirements for FYE Ended 2022	\$878,190	
Projected Interest & Sinking Fund Local Revenue ⁽²⁾	\$920,614	
Debt Subsidy from Texas Education Agency ⁽³⁾	\$0	
Transfers In/(Out)	\$0	
Projected Interest & Sinking Fund Balance, 8/31/22 (Ending)		\$42,424
Net Increase/(Decrease) in Fund Balance		\$42,424

⁽¹⁾ The District anticipates no I&S expenditures or revenue in FYE 2021, and has opted to provide a preliminary projection of its FYE 2022 I&S budget.

⁽²⁾ 2021-2022 I&S revenue based on projected collections at a \$0.2850 tax rate, using a 97% collection factor.

⁽³⁾ Source: Texas Education Agency

APPENDIX B

Audited Financial Statements

The information contained in this appendix consists of the Roby Consolidated Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2020.

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

ROBY
CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
FISHER COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2020

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2020**

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	<u>FINANCIAL SECTION</u>	
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis (Required Supplementary Information)	7
	<u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Position	17
B-1	Statement of Activities	18
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	19
C-2	Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	20
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	21
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	22
	Fiduciary Fund Financial Statements:	
D-1	Statement of Fiduciary Net Position	23
D-2	Statement of Changes in Fiduciary Net Position	24
	Notes to the Financial Statements	25
	<u>Required Supplementary Information</u>	
G-1	Budgetary Comparison Schedule - General Fund	57
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	58
G-3	Schedule of District Contributions for Pensions (TRS)	60
G-4	Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	62
G-5	Schedule of District Contributions for OPEB (TRS)	63
	Notes to Required Supplementary Information	64
	<u>Combining and Individual Schedules</u>	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	67
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	69
	<u>Required Texas Education Agency Schedules</u>	
J-1	Schedule of Delinquent Taxes	72
J-2	Budgetary Comparison Schedule – Child Nutrition Fund	74

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2020**

Reports on Compliance, Internal Controls, and Federal Awards

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	76
Schedule of Findings and Responses	78

CERTIFICATE OF BOARD

**Roby Consolidated Independent
School District**

Name of School District

Fisher

County

076903

County – District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended **August 31, 2020**, at a meeting of the Board of Trustees of such school district on the **9th** day of **November, 2020**.



Signature of Board Secretary



Signature of Board President

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

James E. Rodgers and Company, P.C.

Certified Public Accountants

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

E-mail: rodgerscpa@att.net

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

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

November 9, 2020

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

Independent Auditor's Report

To the Board of Trustees
Roby Consolidated Independent School District
Roby, Texas 79543

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 Roby Consolidated Independent School District (the District) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Roby Consolidated Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

James E. Rodgers and Company, P.C.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Roby Consolidated Independent School District, as of August 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Roby Consolidated Independent School District's basic financial statements. The combining and individual non-major fund financial statements, and the Texas Education Agency required information in conformity with laws and regulations of the State of Texas in Exhibits J-1 through J-2, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the Texas Education Agency required information in conformity with laws and regulations of the state of Texas in Exhibits J-1 through J-2 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 combining and individual non-major fund financial statements and the Texas Education Agency required information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this section.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2020, on our consideration of the Roby Consolidated Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

James E. Rodgers and Company, P.C.

of Roby Consolidated Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Roby Consolidated Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



James E. Rodgers and Company, P.C.

Jason Carter
Interim Superintendent

Jason Carter
HS Principal

Misty McWilliams
EL/JH Principal



ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

P.O. Box 519 • 141 South College Street • Roby, Texas 79543
325-776-2222 (school) • 325-267-2622 (fax) • www.robyscid.org

Jeff Posey
President

Stormy Rasberry
Vice President

Chris Estes
Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administration of **Roby Consolidated Independent School District**, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2020. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

Highlights of Current Fiscal Year Finances

District's Total Net Position at the End of the Year	\$	4,417,174
Total District Revenues for the Current Fiscal Year		4,530,332
Total District Expenses for the Current Fiscal Year		4,324,590
Fund Balance in the General Fund at the End of Year		3,681,248

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

	Increase (Decrease)	
	\$	%
<u>Change in Net Position:</u>		
Change in the District's Total Net Position	\$ 205,742	4.89%
<u>Revenue Changes:</u>		
Change in the District's Total Revenues	\$ 476,315	11.75%
Change in the District's Property Tax Revenues	(66,292)	-4.58%
Change in the District's State Aid Formula Grants	441,649	23.33%
Change in Operating Grants and Contributions	37,075	6.18%
<u>Expense Changes:</u>		
Change in the District's Total Expenses	\$ 123,273	2.93%
<u>Other Information:</u>		
Change in the District's General Fund Balance	\$ 18,254	0.50%
Excess (Deficit) of Actual Revenue over Budgeted Revenue	229,492	6.66%

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to that of a private sector business.

The *statement of net position* presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported a *net position*. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property tax and earned but unused sick and vacation leave.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees & charges (*governmental activities*). The governmental activities of the District include the education of District students and the programs necessary to support such education.

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. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the

governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The District maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Capital Projects Funds as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Child Nutrition, Debt Service, and Capital Projects Funds and are included in the other supplementary information section of this report.

Proprietary funds. The District does not maintain any proprietary funds. The District could potentially maintain an *internal service fund* as an accounting device used to accumulate and allocate costs internally among the District's various functions. The District could use this internal service fund to account for its self-insurance and flexible spending programs. Internal service funds are generally considered a *governmental activity* and are included in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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 District maintains student activity accounts and scholarship funds as fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

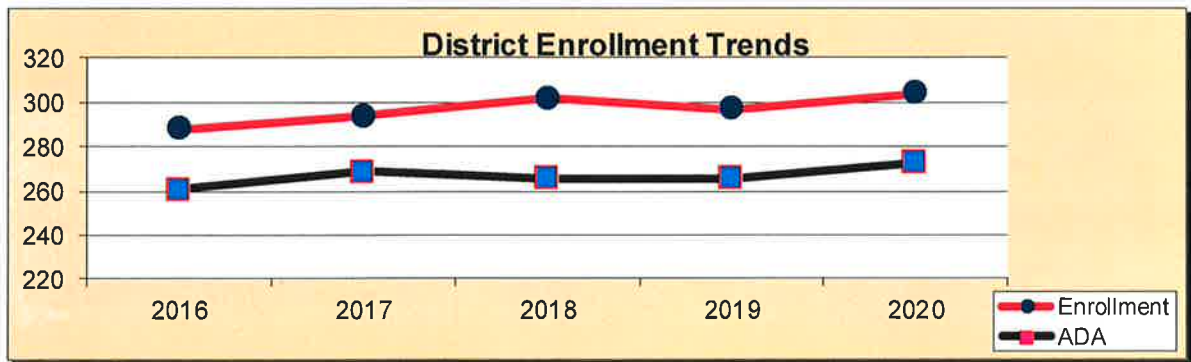
Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with required supplementary information related to the District's contributions to a cost-sharing pension plan and other post-employment benefits plan, both with the Teacher Retirement System of Texas.

DISTRICT FINANCES

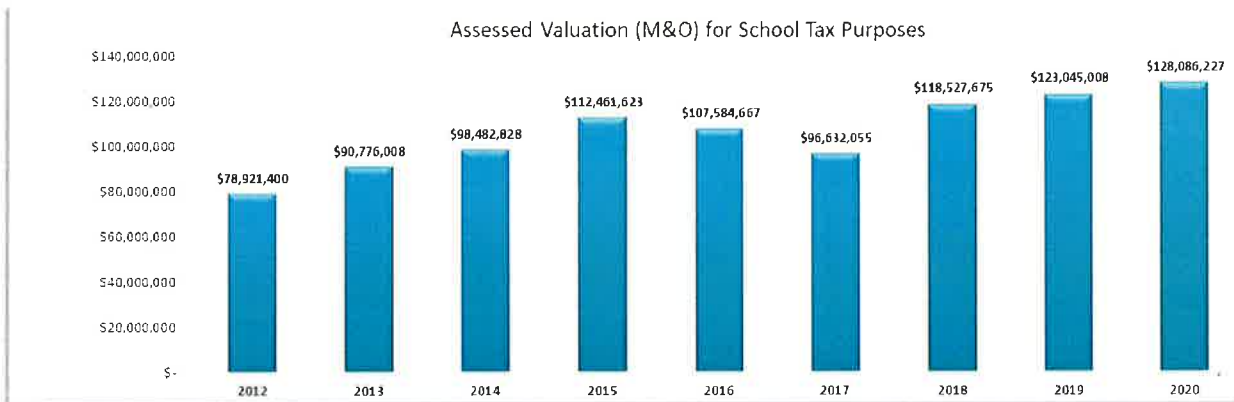
The District's activities are primarily funded from local property tax revenues and education funding from the State of Texas. State funding for public education in Texas is based upon the District's average daily attendance, thus the District's revenue is highly dependent on enrollment trends. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special education, bilingual, and compensatory education programs. The demographics of the District and the types of coursework students pursue are constantly changing and thus affecting funding. The following chart details the enrollment trends of the District.

ENROLLMENT TRENDS

Year	Enrollment	ADA
2016	288	260.6
2017	294	268.6
2018	302	275.8
2019	297	265.6
2020	304	272.9



A history of the District's assessed valuation for school tax purposes is as follows:



GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table displays the net position for the current and prior fiscal end of year.

Table I						
Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2019	2020	2019	2020	2019	2020
Current and other assets	\$ 3,901,248	\$ 4,197,542	\$ -	\$ -	\$ 3,901,248	\$ 4,197,542
Capital assets	2,386,514	2,690,172	-	-	2,386,514	2,690,172
Deferred outflow of resources	769,443	803,642	-	-	769,443	803,642
Total assets and deferred outflows	\$ 7,057,205	\$ 7,691,356	\$ -	\$ -	\$ 7,057,205	\$ 7,691,356
Long-term liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other current liabilities	189,937	414,422	-	-	189,937	414,422
Net Pension Liability	853,981	845,187	-	-	853,981	845,187
Net OPEB Liability	1,301,296	1,287,157	-	-	1,301,296	1,287,157
Deferred inflow of resources	500,559	727,416	-	-	500,559	727,416
Total liabilities and deferred inflows	\$ 2,845,773	\$ 3,274,182	\$ -	\$ -	\$ 2,845,773	\$ 3,274,182
Net Position:						
Net Investment in Capital Assets	\$ 2,386,514	\$ 2,690,172	\$ -	\$ -	\$ 2,386,514	\$ 2,690,172
Restricted	10	1,994	-	-	10	1,994
Unrestricted	1,824,908	1,725,008	-	-	1,824,908	1,725,008
Total net position	\$ 4,211,432	\$ 4,417,174	\$ -	\$ -	\$ 4,211,432	\$ 4,417,174

The following table indicates the changes in net position of the District.

Table II						
Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2019	2020	2019	2020	2019	2020
Program Revenues:						
Charges for Services	\$ 51,389	\$ 73,025	\$ -	\$ -	\$ 51,389	\$ 73,025
Operating grants & contributions	599,922	636,997	-	-	599,922	636,997
General Revenues:						
Maintenance & operations taxes	1,447,743	1,381,451	-	-	1,447,743	1,381,451
State aid - formula grants	1,892,706	2,334,355	-	-	1,892,706	2,334,355
Investment earnings	56,368	38,754	-	-	56,368	38,754
Miscellaneous	12,740	65,750	-	-	12,740	65,750
Refund of Prior Year Property Tax	(6,851)	-	-	-	(6,851)	-
Total Revenues	\$ 4,054,017	\$ 4,530,332	\$ -	\$ -	\$ 4,054,017	\$ 4,530,332
Expenses						
Instruction, curriculum & related	\$ 2,303,293	\$ 2,496,902	\$ -	\$ -	\$ 2,303,293	\$ 2,496,902
Instructional & school leadership	262,594	271,486	-	-	262,594	271,486
Student support services	237,209	221,033	-	-	237,209	221,033
Food Services	164,422	184,411	-	-	164,422	184,411
Extracurricular activities	279,483	171,946	-	-	279,483	171,946
Administration & data processing	293,514	318,059	-	-	293,514	318,059
Facilities maintenance & security	504,462	493,755	-	-	504,462	493,755
Intergovernmental & SSA	156,340	166,998	-	-	156,340	166,998
Total Expenses	\$ 4,201,317	\$ 4,324,590	\$ -	\$ -	\$ 4,201,317	\$ 4,324,590
Increase in net position before transfers and special items	\$ (147,300)	\$ 205,742	\$ -	\$ -	\$ (147,300)	\$ 205,742
Net position at 9/1	4,358,732	4,211,432	-	-	4,358,732	4,211,432
Total Net Position	\$ 4,211,432	\$ 4,417,174	\$ -	\$ -	\$ 4,211,432	\$ 4,417,174

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

Excess of Revenues Over Expenditures for Governmental Funds	\$ 70,238
Current Year Purchases of Capital Assets	492,023
Depreciation	(188,365)
Other Modified to Full Accrual Revenue Adjustments	2,211
Net adjustment to pension expense required by GASB 68	(131,125)
Net adjustments for OPEB plan required by GASB 75	(39,240)
Change in Net Position of Governmental Activities	<u>\$ 205,742</u>

THE DISTRICT'S FUNDS

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

Governmental Fund Financial Statements			
	General Fund	Special Revenue Funds	Total
Revenues	\$ 4,049,277	\$ 336,293	\$ 4,385,570
Expenditures	(4,005,265)	(310,067)	(4,315,332)
Other Financing Sources	-	25,758	25,758
Other Financing Uses	(25,758)	-	(25,758)
Net Change in Fund Balance	\$ 18,254	\$ 51,984	\$ 70,238
Beginning Fund Balance	3,662,994	10	3,663,004
Ending Fund Balance			
All Governmental Funds	\$ 3,681,248	\$ 51,994	\$ 3,733,242

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

Track Upgrade	\$ 413,012
Whiteboards	53,376
John Deere Utility Tractor	25,635
TOTAL	\$ 492,023
Total Additions	\$ 492,023
Total Deletions	-
Net Change	\$ 492,023

The District's subsequent fiscal year general fund capital budget indicates no significant capital outlay.

Long Term Debt

The District's has no long-term debt as of the end of the current fiscal year.

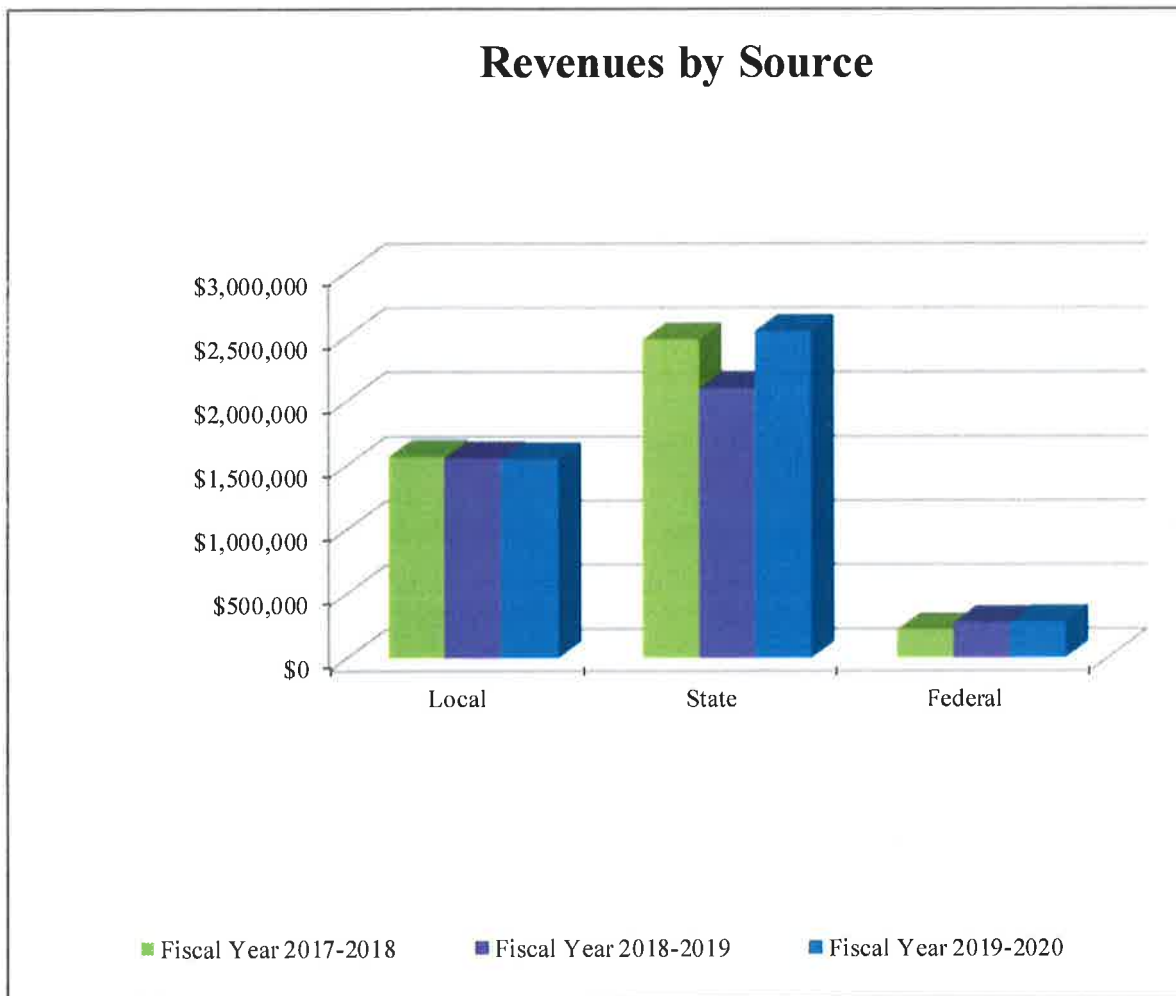
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the subsequent fiscal year budget and tax rates. Expected student enrollment and property values for ad valorem taxes were issues considered in projecting expected revenue and expenditures when adopting the budget for next year. A summary of the subsequent fiscal year budget for funds legally required to be budgeted is as follows:

Fiscal Year 2020 - 2021 Adopted Budget			
	General Fund	Child Nutrition Fund	TOTALS
Revenues	\$ 4,064,869	\$ 118,280	\$ 4,183,149
Expenditures	(3,998,357)	(184,792)	(4,183,149)
Other Financing Sources	-	66,512	66,512
Other Financing Uses	(66,512)	-	(66,512)
Net Change in Fund Balance	\$ -	\$ -	\$ -
Beginning of Year Fund Balance	3,681,248	1,994	3,683,242
Projected End of Year Fund Balance	\$ 3,681,248	\$ 1,994	\$ 3,683,242

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

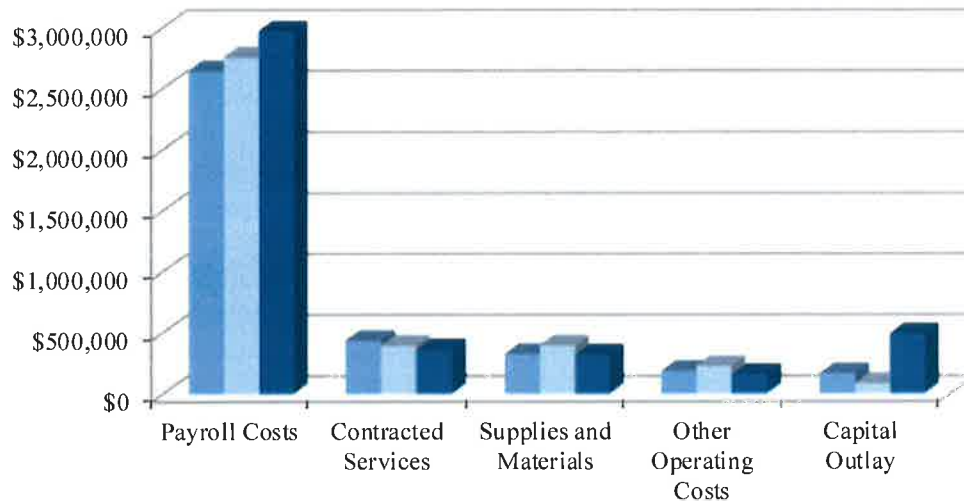
REVENUES BY SOURCE			
	Fiscal Year 2017-2018	Fiscal Year 2018-2019	Fiscal Year 2019-2020
ADA	275.8	265.6	272.9
Local	\$1,572,311	\$1,562,423	\$1,556,769
State	2,481,030	2,102,980	2,544,778
Federal	222,121	279,268	284,023
Total	\$4,275,462	\$3,944,671	\$4,385,570



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

Expenditures By Type			
	Fiscal Year 2017-2018	Fiscal Year 2018-2019	Fiscal Year 2019-2020
Total Staff	55.26	55.08	57.98
Payroll Costs	\$2,648,903	\$2,761,726	\$2,974,111
Contracted Services	439,609	400,754	367,151
Supplies and Materials	329,623	401,647	323,045
Other Operating Costs	189,940	232,581	159,002
Capital Outlay	169,787	91,242	492,023
Total	\$3,777,862	\$3,887,950	\$4,315,332

Expenditures



■ Fiscal Year 2017-2018 ■ Fiscal Year 2018-2019 ■ Fiscal Year 2019-2020

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at **Roby Consolidated Independent School District, P.O. Box 519 / 141 South College Street, Roby, Texas 79543; (325) 776-2222.**

BASIC FINANCIAL STATEMENTS

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 3,958,991
1220 Property Taxes - Delinquent	66,504
1230 Allowance for Uncollectible Taxes	(16,626)
1240 Due from Other Governments	187,714
1267 Due from Fiduciary Funds	959
Capital Assets:	
1510 Land	67,698
1520 Buildings, Net	2,269,105
1530 Furniture and Equipment, Net	353,369
1000 Total Assets	6,887,714
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	472,530
1706 Deferred Outflow Related to TRS OPEB	331,112
1700 Total Deferred Outflows of Resources	803,642
LIABILITIES	
2110 Accounts Payable	11,826
2160 Accrued Wages Payable	113,723
2180 Due to Other Governments	285,267
2200 Accrued Expenses	2,966
2300 Unearned Revenue	640
Noncurrent Liabilities:	
2540 Net Pension Liability (District's Share)	845,187
2545 Net OPEB Liability (District's Share)	1,287,157
2000 Total Liabilities	2,546,766
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	170,574
2606 Deferred Inflow Related to TRS OPEB	556,842
2600 Total Deferred Inflows of Resources	727,416
NET POSITION	
3200 Net Investment in Capital Assets	2,690,172
3820 Restricted for Federal and State Programs	1,994
3900 Unrestricted	1,725,008
3000 Total Net Position	\$ 4,417,174

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 2,478,471	\$ -	\$ 409,125	\$ (2,069,346)
12 Instructional Resources and Media Services	17,089	-	1,351	(15,738)
13 Curriculum and Instructional Staff Development	1,342	-	-	(1,342)
23 School Leadership	271,486	-	28,497	(242,989)
31 Guidance, Counseling and Evaluation Services	74,364	-	7,785	(66,579)
33 Health Services	22,008	-	1,351	(20,657)
34 Student (Pupil) Transportation	124,661	-	6,543	(118,118)
35 Food Services	184,411	20,271	131,550	(32,590)
36 Extracurricular Activities	171,946	8,703	5,289	(157,954)
41 General Administration	287,930	-	17,326	(270,604)
51 Facilities Maintenance and Operations	493,755	20,923	27,651	(445,181)
53 Data Processing Services	30,129	-	529	(29,600)
61 Community Services	43,113	23,128	-	(19,985)
93 Payments Related to Shared Services Arrangements	59,190	-	-	(59,190)
99 Other Intergovernmental Charges	64,695	-	-	(64,695)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 4,324,590	\$ 73,025	\$ 636,997	(3,614,568)

Data
Control
Codes

General Revenues:
Taxes:

MT	Property Taxes, Levied for General Purposes	1,381,451
SF	State Aid - Formula Grants	2,334,355
IE	Investment Earnings	38,754
MI	Miscellaneous Local and Intermediate Revenue	65,750
TR	Total General Revenues	3,820,310
CN	Change in Net Position	205,742
NB	Net Position - Beginning	4,211,432
NE	Net Position - Ending	\$ 4,417,174

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2020

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 3,906,196	\$ 52,795	\$ 3,958,991
1220 Property Taxes - Delinquent	66,504	-	66,504
1230 Allowance for Uncollectible Taxes	(16,626)	-	(16,626)
1240 Due from Other Governments	147,294	40,420	187,714
1260 Due from Other Funds	28,256	-	28,256
1000 Total Assets	<u>\$ 4,131,624</u>	<u>\$ 93,215</u>	<u>\$ 4,224,839</u>
LIABILITIES			
2110 Accounts Payable	\$ 11,122	\$ 704	\$ 11,826
2160 Accrued Wages Payable	101,460	12,263	113,723
2170 Due to Other Funds	-	27,297	27,297
2180 Due to Other Governments	285,267	-	285,267
2200 Accrued Expenditures	2,009	957	2,966
2300 Unearned Revenue	640	-	640
2000 Total Liabilities	<u>400,498</u>	<u>41,221</u>	<u>441,719</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	49,878	-	49,878
2600 Total Deferred Inflows of Resources	<u>49,878</u>	<u>-</u>	<u>49,878</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	1,994	1,994
Committed Fund Balance:			
3510 Facilities Improvements	2,766,119	-	2,766,119
3530 Capital Expenditures for Equipment	415,129	-	415,129
3545 Other Committed Fund Balance	-	50,000	50,000
3600 Unassigned Fund Balance	500,000	-	500,000
3000 Total Fund Balances	<u>3,681,248</u>	<u>51,994</u>	<u>3,733,242</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,131,624</u>	<u>\$ 93,215</u>	<u>\$ 4,224,839</u>

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 3,733,242
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The beginning of the year historical cost of these assets less accumulated depreciation was added to net position. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	2,386,514
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current period capital outlays and debt principal payments is to decrease net position.	492,023
3 Recognition of the GASB 68 reporting requirements for the District's pension plan through TRS requires that additional items be reported in the government-wide statements. The District's share of the TRS pension plan resulted in a net pension liability, a deferred outflow related to the TRS pension, and a deferred inflow related to the TRS pension. This resulted in a reduction of reported ending net position.	(543,231)
4 Recognition of the GASB 75 reporting requirements for the District's OPEB plan through TRS-Care requires that additional items be reported in the government-wide statements.. The District's share of the TRS-Care plan resulted in a net OPEB liability, a deferred outflow related to TRS OPEB, and a deferred inflow related to TRS OPEB. This resulted in a reduction of reported ending net position.	(1,512,887)
5 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(188,365)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	49,878
19 Net Position of Governmental Activities	\$ 4,417,174

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,486,498	\$ 70,271	\$ 1,556,769
5800 State Program Revenues	2,536,208	8,570	2,544,778
5900 Federal Program Revenues	26,571	257,452	284,023
5020 Total Revenues	4,049,277	336,293	4,385,570
EXPENDITURES:			
Current:			
0011 Instruction	2,058,779	141,735	2,200,514
0012 Instructional Resources and Media Services	15,274	-	15,274
0013 Curriculum and Instructional Staff Development	1,342	-	1,342
0023 School Leadership	247,178	-	247,178
0031 Guidance, Counseling, and Evaluation Services	67,915	-	67,915
0033 Health Services	20,184	-	20,184
0034 Student (Pupil) Transportation	81,804	-	81,804
0035 Food Services	4,256	168,332	172,588
0036 Extracurricular Activities	142,996	-	142,996
0041 General Administration	265,042	-	265,042
0051 Facilities Maintenance and Operations	493,978	-	493,978
0053 Data Processing Services	28,549	-	28,549
0061 Community Services	41,071	-	41,071
Capital Outlay:			
0081 Facilities Acquisition and Construction	413,012	-	413,012
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	59,190	-	59,190
0099 Other Intergovernmental Charges	64,695	-	64,695
6030 Total Expenditures	4,005,265	310,067	4,315,332
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	44,012	26,226	70,238
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	25,758	25,758
8911 Transfers Out (Use)	(25,758)	-	(25,758)
7080 Total Other Financing Sources (Uses)	(25,758)	25,758	-
1200 Net Change in Fund Balances	18,254	51,984	70,238
0100 Fund Balance - September 1 (Beginning)	3,662,994	10	3,663,004
3000 Fund Balance - August 31 (Ending)	\$ 3,681,248	\$ 51,994	\$ 3,733,242

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 70,238
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to decrease net position.	492,023
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.	(188,365)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of long-term debt, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	2,211
Current year changes due to GASB 68 increased revenues, but also increased expenditures. The net effect on the change in the ending net position was a decrease in the change in net position.	(131,125)
GASB 75 requires that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease the change in net position. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position. The net result is a decrease in the change in net position.	(39,240)
Change in Net Position of Governmental Activities	\$ 205,742

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2020

EXHIBIT D-1

	Private Purpose Trust Fund	Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 33,380
Restricted Assets	15,547	-
Total Assets	<u>15,547</u>	<u>\$ 33,380</u>
LIABILITIES		
Due to Other Funds	959	-
Total Liabilities	<u>959</u>	<u>-</u>
NET POSITION		
Restricted for Scholarships	14,588	-
Restricted - Held for Student Activities	-	33,380
Total Net Position	<u>\$ 14,588</u>	<u>\$ 33,380</u>

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

	Private Purpose Trust Fund	Custodial Fund
ADDITIONS:		
Miscellaneous Revenue - Student Activities	\$ -	\$ 76,186
Earnings from Temporary Deposits	135	-
Total Additions	<u>135</u>	<u>76,186</u>
DEDUCTIONS:		
Other Deductions	<u>1,000</u>	<u>61,621</u>
Total Deductions	<u>1,000</u>	<u>61,621</u>
Change in Fiduciary Net Position	(865)	14,565
Total Net Position - September 1 (Beginning)	<u>15,453</u>	<u>18,815</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 14,588</u></u>	<u><u>\$ 33,380</u></u>

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

CURRENT FISCAL YEAR ENDED AUGUST 31, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Roby Consolidated Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also complies with the requirements of the appropriate version of the Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. For financial reporting purposes, the accompanying financial statements include all the operations over which the District is financially accountable. The District applies current GASB criteria to potential component units and other related entities in evaluating the potential inclusion in the reporting entity. The criteria for inclusion in the reporting entity involves whether the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the District such that exclusion of such information would cause the District's financial statements to be incomplete. For the current fiscal year, the reporting entity of the District does not include any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

The District does not report any major enterprise funds.

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

Governmental Funds:

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

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. The District did not maintain a debt service fund during the current fiscal year.

Capital Projects Funds – Proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund when applicable. The District did not maintain a capital projects fund during the current fiscal year.

Proprietary Funds:

The District does not maintain proprietary funds.

Fiduciary Funds:

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

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

Transactions between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds”. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included in the governmental activities column. Similarly, balances between the funds included in any business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in / out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. OTHER ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

9. Net Position and Fund Balances:

Government-wide and Proprietary Fund Net Position:

Government-wide and proprietary fund net position is divided into three components:

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

Governmental Fund Balances:

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

- Nonspendable—Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

10. Use of Restricted Resources:

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

11. The District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application for any applicable investments. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.
12. Investment income reported in one fund has not been assigned directly to another fund by the District.
13. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.
14. Deferred Outflows of Resources: The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. No deferred outflows of resources affect the governmental funds financial statements in the current year. Deferred outflows of resources related to pension and other post-employment benefits reporting is presented in the government wide statements.
15. Deferred Inflow of Resources: The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District will not recognize the related revenues until a future event occurs. The District has items which occur because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes and deferred rental income are reported in the governmental funds balance sheet. The District has also reported deferred inflows of resources in its government-wide financial statements relating to inflows for pension and other post-employment benefits for the current year.
16. Pensions: The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and

information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Capital Assets - Beginning of the Year	Historical Cost	Accumulated Depreciation	Net Value at Beginning of Year	Change in Net Position
Land	\$ 67,698	\$ -	\$ 67,698	
Buildings and Improvements	5,441,362	(3,463,517)	1,977,845	
Furniture and Equipment	1,064,121	(723,150)	340,971	
Change in Net Position				\$ 2,386,514
Long-term Liabilities - Beginning of the Year			Payable at Beginning of Year	
Long - Term Debt Payable			\$ -	
Accrued Interest on Long-Term Liabilities			-	
Change in Net Position				-
Net Adjustment to Net Position				\$ 2,386,514

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

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

	Amount	To Changes in Net Position	Adjustments to Net Position
<u>Current Year Capital Outlay</u>			
Land	\$ -		
Buildings & Improvements	413,012		
Furniture & Equipment	79,011		
Construction in Progress	-		
Total Capital Outlay	<u>492,023</u>	492,023	492,023
<u>Debt Principal Payments</u>			
Long-Term Debt Principal Payments	-		
Other Adjustments	-		
Total Principal Payments	<u>-</u>	-	-
Total Adjustment to Net Position		\$ 492,023	\$ 492,023

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

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
<u>Adjustments to Revenue, Deferred Inflows, Beginning Net Position:</u>			
Beginning of Year Deferred Inflows	\$ 47,667	-	47,667
Modified to Full Accrual Property Tax Adjustments	2,211	2,211	2,211
Other Revenue/Expense Adjustments	-	-	-
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases:</u>			
New Long-Term Debt Issued	-	-	-
Recorded to Full Accrual Expense			
<u>Adjustments:</u>			
Adjust Interest Expense on Long-term Debt	-	-	-
Basis on Disposition of Capital Assets	-	-	-
Totals		\$ 2,211	\$ 49,878

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund (if applicable) and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in the J Exhibits as reported in the required Texas Education Agency Exhibits.

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

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

	End of Fiscal Year Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 1,994
Non-appropriated Budget Funds	50,000
All Special Revenue Funds	\$ 51,994

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District has disclosed details of budget accountability, stewardship, and compliance in Section C of the Notes to Required Supplemental Information.

C. DEFICIT FUND EQUITY

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

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. **CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash and Cash Equivalents

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

Cash and Cash Equivalents by Type	End of Fiscal Year
Cash Deposits in Bank	\$ 3,992,371
Certificates of Deposit Maturity to 3 months	-
Cash on Hand	-
Restricted Cash Deposits in Bank	-
Total Cash and Cash Equivalents by Account Type	\$ 3,992,371
Cash and Cash Equivalents by Fund:	End of Fiscal Year
Cash and Cash Equivalents:	
General Fund	\$ 3,906,196
Non-Major Governmental Funds	52,795
Cash and Investments - Enterprise	-
Internal Service Funds	-
Agency Funds	33,380
Trust Funds	-
Total Cash and Cash Equivalents by Fund	\$ 3,992,371

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District's cash deposits subject to custodial credit risk at the date of the highest cash balance and at year end were:

Custodial Credit Risk	Highest Cash Balance	End of Fiscal Year
Name of Depository Bank: Vista Bank		
Total amount of FDIC Insurance (FDIC)	\$ 265,912	\$ 265,547
Securities Pledged	4,908,080	5,153,001
Total FDIC, Bond or Securities Pledged	\$ 5,173,991	\$ 5,418,548
Cash Deposits and Cash Investments in Bank	\$ 4,567,272	\$ 4,033,747
Excess or (Shortage) of Deposits compared to FDIC and Letter of Credit	\$ 606,719	\$ 1,384,801
The District's cash deposits were entirely covered by FDIC Insurance or by bond or pledged collateral by the Depository Bank	YES	YES

Foreign Currency Risk: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency.

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

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

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

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

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

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

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

Foreign Currency Risk for Investments: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding all investments denominated in a foreign currency.

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

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

Investments	End of Fiscal Year Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured by fair value level -							
Restricted Investments-							
Scholarship Funds-Certificates of Deposit	15,547	-	15,547	-	100.00%	365	3BB+ to AA-
Total Investments	\$ 15,547	\$ -	\$ 15,547	\$ -	100.00%		

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

There were inter-fund balances at August 31, 2020 as indicated by the following table.

FUND	Due From Other Funds	Due To Other Funds
General Fund		
Non-major Governmental Funds	\$ 27,297	\$ -
All Others	959	-
Total General Fund	<u>\$ 28,256</u>	<u>\$ -</u>
Non-major Governmental Funds		
General Fund	\$ -	\$ 27,297
All Others	-	-
Total Non-major Governmental Funds	<u>\$ -</u>	<u>\$ 27,297</u>
All Other Funds		
General Fund	\$ -	\$ 959
Non-major Governmental Funds	-	-
Total All Other Funds	<u>\$ -</u>	<u>\$ 959</u>
Total Interfund Receivables / Payables	<u>\$ 28,256</u>	<u>\$ 28,256</u>

The purpose of the interfund receivables and payables are as follows:

- The \$27,297 receivable / payable between the General Fund and nonmajor governmental funds represent short term advances between funds resulting from pooled cash accounts.
- The \$959 due from the scholarship funds to the General Fund is a short-term advance to a scholarship fund until investments mature and repayment can be made.

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

FUND	Transfers In	Transfers Out
General Fund		
Non-major Governmental Funds	\$ -	\$ 25,758
All Others	-	-
Total General Fund	<u>\$ -</u>	<u>\$ 25,758</u>
Non-major Governmental Funds		
General Fund	\$ 25,758	\$ -
All Others	-	-
Total Non-major Governmental Funds	<u>\$ 25,758</u>	<u>\$ -</u>
All Other Funds		
General Fund	\$ -	\$ -
Non-major Governmental Funds	-	-
Total All Other Funds	<u>\$ -</u>	<u>\$ -</u>
Total Interfund Transfers	<u>\$ 25,758</u>	<u>\$ 25,758</u>

The above transfers were operating transfers from the General Fund to the Food Service special revenue fund. Since federal revenues from the National School Lunch Program and charges for services revenue from food services operations are not adequate to fund the operating expenditures of the program, operating transfers from the General Fund are necessary.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at the end of the current fiscal year were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 66,504	\$ 147,294	\$ 28,256	\$ -	\$ 242,054
Non-major Governmental Funds		40,420			40,420
Total Governmental Activities	\$ 66,504	\$ 187,714	\$ 28,256	\$ -	282,474
Amounts not scheduled for collection during subsequent year	\$ -	\$ -	\$ -	\$ -	-

Payables at the end of the current fiscal year were as follows:

	Accounts Payable	Accrued Wages Payable	Accrued Payroll Benefits	Due To Other Funds	Due To Other Govt.	Other	Total Payables
Governmental Activities:							
General Fund	\$ 11,122	\$ 101,460	\$ 2,009		\$ 285,267	\$ -	\$ 399,858
Non-major Governmental Funds	704	12,263	957	27,297	-	-	41,221
Total Governmental Type Activities	\$ 11,826	\$ 113,723	\$ 2,966	\$27,297	\$ 285,267	\$ -	\$ 441,079
Amounts not scheduled for payment during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-

F. CAPITAL ASSET ACTIVITY

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

Primary Government				
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 67,698	\$ -	\$ -	\$ 67,698
<u>Capital Assets Being Depreciated:</u>				
Buildings and Improvements	5,441,362	413,012	-	5,854,374
Furniture and Equipment	1,064,121	79,011	-	1,143,132
Infrastructure	-	-	-	-
Totals at Historic Cost	\$ 6,573,181	\$ 492,023	\$ -	\$ 7,065,204
<u>Less Accumulated Depreciation for:</u>				
Buildings and Improvements	\$ 3,463,517	\$ 121,752	\$ -	\$ 3,585,269
Furniture and Equipment	723,150	66,613	-	789,763
Infrastructure	-	-	-	-
Total Accumulated Depreciation	\$ 4,186,667	\$ 188,365	\$ -	\$ 4,375,032
Governmental Activities Capital Assets- Net	\$ 2,386,514	\$ 303,658	\$ -	\$ 2,690,172
<u>Depreciation expense was charged to governmental functions as follows:</u>				
Instruction			\$	125,853
Student (Pupil) Transportation				37,950
Food Services				440
Cocurricular/Extracurricular Activities				19,119
Facilities Maintenance and Operations				5,003
Total Depreciation Expense			\$	188,365

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

G. SHORT TERM DEBT PAYABLE

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the governmental fund financial statements as Other Resources and principal payments are shown as Other Uses. The District had no short-term debt obligations at any time during the current fiscal year.

H. BONDS, CAPITAL LEASES, AND OTHER LONG-TERM DEBT

The District, at the end and throughout the current fiscal year, was not obligated for any long-term debt.

I. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of the end of the current fiscal year (the imputed interest on the leases range from 4.50% to 5.25%:

Year Ending August 31	
2021	\$ 17,350
2022	17,350
2023	10,795
2024	-
2025	-
2026-2030	-
2031-2035	-
Total Minimum Future Rentals	\$ 45,495
Rental Expenditures in Current Fiscal Year	\$ 18,149

J. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in "lump sum" cash payment to such employee or his/her estate. Individuals employed after October 1, 1985, are not eligible to receive the lump sum payments. The District had no unpaid vacation or sick leave benefits during the current fiscal year.

K. HEALTH CARE COVERAGE

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

L. DEFERRED INFLOWS / UNEARNED REVENUES – GOVERNMENTAL FUND STATEMENTS

Deferred inflow of resources and unearned revenues for governmental funds at year-end consisted of the following:

	General Fund	Special Revenue Funds	Total
Net Unavailable Tax Revenue	\$ 49,878	\$ -	\$ 49,878
State and Federal Grants	-	-	-
Other	-	-	640
Total Deferred Inflows	\$ 49,878	\$ -	\$ 50,518

M. DUE FROM OTHER GOVERNMENTS

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

FUND	Due From State - Foundation Entitlements	Due from State - State and Federal Grants	Due From Other Governments	TOTAL
General	\$ 147,294	\$ -	\$ -	\$ 147,294
Special Revenue	-	40,420	-	40,420
Totals	\$ 147,294	\$ 40,420	\$ -	\$ 187,714

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Total
Property Taxes	\$ 1,364,397	\$ -	\$ 1,364,397
Property Tax Penalties & Interest	14,842	-	14,842
Investment Income	38,754	-	38,754
Food Sales	-	20,271	20,271
Extracurricular Student Activities	8,703	-	8,703
Miscellaneous Other	59,802	50,000	109,802
Totals	\$ 1,486,498	\$ 70,271	\$ 1,556,769

O. LITIGATION

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

P. COMMITMENTS AND CONTINGENCIES

The District as of the end of the fiscal year has not incurred or made any additional commitments and/or contingencies in connection with construction or other areas of significance.

Q. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is a member of various shared services arrangements (SSA's) that are accounted for using Model 3 in the Texas Education Agency (TEA) accounting guide for school districts. The SSA's provides services for member districts. Other districts serve as the fiscal agent for the SSA's. In addition to the District, other member districts participate in the shared services arrangements also. The fiscal agent for each SSA provides SSA services. The member districts provide the funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the fiscal agent for each SSA has accounted for the fiscal agent's activities of the SSA in special revenue funds. The Shared Services Arrangements listed below have been accounted for using Model 3 in the SSA section of the Resource Guide. The District has accounted for the payments to the fiscal agent in the General Fund No. 199 as intergovernmental expenditures (function 93). A chart detailing the District's participation in those shared services arrangement is as follows:

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue	District Special Revenue	Program Expenditures
				Fund	Fund	Current Year
Tri-County Education SSA	Special Education	Stamford ISD	Special Education	437	n/a	\$ 53,465
West Central Texas SSA	Abstinence Coalition	Sweetwater ISD	State/Local Member Dist.	456	n/a	4,140
West Central Texas SSA	Pregnancy Ed Parent	Sweetwater ISD	State/Local Member Dist.	457	n/a	1,585
TOTAL FUNCTION 93 EXPENDITURES						\$ 59,190

The District also participates in shared service arrangements with other school districts / education service centers for various educational activities. In addition to the District, other member districts participate in the educational cooperatives and the fiscal agent provides SSA services. The funding for each activity is received by the fiscal agent from the grantor agency. The fiscal agent then provides the funds to the member districts. According to guidance provided in TEA's Resource Guide, the Fiscal Agent has accounted for the fiscal agent's activities of the SSA in a Special Revenue Fund. The Shared Services Arrangements has been accounted for using Model 1 in the SSA section of the TEA Resource Guide. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the shared service arrangements in which the District participates and the extent of funding received and expended under each program.

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue	District Special Revenue	Program Expenditures
				Fund	Fund	Current Year
Tri-County Education SSA	Special Education	Stamford ISD	IDEA, Part B - Formula	313	224	\$ 15,404
Tri-County Education SSA	Special Education	Stamford ISD	IDEA, Part B - PreSchool	314	225	6,112

R. SUBSEQUENT EVENTS

In preparing the basic financial statements, District administration has evaluated events and transactions for potential recognition or disclosure through **November 09, 2020**, the date this Annual Financial Report was available to be issued.

The voters of the District approved the issuance of bonds in the amount of \$10.8 million at a bond election held on November 3, 2020. Included in the bond proposal is a classroom building, high school renovation, an agriculture / CTE shop, gymnasium HVAC, and security at the high school.

S. RELATED ORGANIZATIONS

The District at present does not maintain a foundation or receive material support from related entities. These entities are usually established as a not-for-profit entity to provide assistance and support for teachers and students to develop special programs and projects and other school district support activities. This entity would be a "related organization" of the District as defined by current governmental accounting standards. Any support from related organizations to the District was immaterial.

T. RELATED PARTY TRANSACTIONS

The District did not incur any material reportable related party transactions or balances as of and during the current fiscal year ended.

U. FUND BALANCE / NET POSITION ADJUSTMENTS

The District did not make fund balance or net position adjustments during the current fiscal year.

V. RISK FINANCING AND OTHER COVERAGE

Workers' Compensation Pool

During the current fiscal year, Roby Consolidated Independent School District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees. The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2.0 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31 of each fiscal year, the Fund carries a discounted reserve for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31 of the current year, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions. The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31 for each fiscal year are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability, and Property Program

During the current fiscal year, Roby Consolidated Independent School District participated in the TASB Risk Management Fund's (the Fund's) Property Program with coverage in

- Auto Liability
- Auto Physical Damage
- Legal Liability
- Privacy and Information Security
- Property

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability, and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the current fiscal year, the Fund anticipates that Roby Consolidated Independent School District has no additional liability beyond the contractual obligations for payment of contributions. The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31 each year are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

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

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

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

W. DEFINED BENEFIT PENSION PLAN

a. Plan Description

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard 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 / Applicable Disclosure Dates

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting *About TRS* then *Publications* then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

For disclosure in this footnote, applicable dates and periods are as follows: 1) the fiscal year reporting date and period are August 31, 2020 and the twelve months then ended; 2) the measurement date for the pension data was August 31, 2019 (date of actuarial valuation) and the measurement period was the period September 1, 2018 through August 31, 2019; 3) the previous measurement date and date of prior actuarial valuation was August 31, 2018.

c. Benefits Provided

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

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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS

Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2019	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Current fiscal year employer contributions		\$ 60,160
Current fiscal year member contributions		\$ 185,563
2019 measurement year NECE on-behalf contributions		\$ 122,695
<u>Payments made by the State On-Behalf of the District for Medicare, Part D:</u>		
Fiscal year 2018 Medicare, Part D On-Behalf		\$ 6,362
Fiscal year 2019 Medicare, Part D On-Behalf		\$ 8,290
Fiscal year 2020 Medicare, Part D On-Behalf		\$ 10,373

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non(OASDI) surcharge that was in effect in fiscal year 2019.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-

Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

e. Actuarial Assumptions

The total pension liability in the measurement date actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term expected investment rate of return	7.25%
	2.69%. 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"
Municipal Bond Rate of of August 2019	
Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases including inflation	3.05 % to 9.05% including inflation
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability as of the measurement date are the same assumptions used in the previous actuarial valuation. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

f. Discount Rate

The discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increased to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges 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 the measurement date (see page 52 of the TRS CAFR) are summarized below:

Asset Class	FY 2019 Target Allocation ¹ %	New Target Allocation ² %	Long-Term Expected Geometric Real Rate of Return ³
Global Equity			
USA	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	-	-
Private Equity	13.0%	14.0%	8.4%
Stable Value			
U.S. Treasuries ⁴	11.0%	16.0%	3.1%
Stable Value Hedge Funds	4.0%	5.0%	4.5%
Absolute Return	0.0%	0.0%	0.0%
Real Return			
Global Inflation Linked Bonds ⁴	3.0%	-	-
Real Estate	14.0%	15.0%	8.5%
Energy, Natural Resources and Infrastructure	5.0%	6.0%	7.3%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	8.0%	5.8%/6.5% ⁵
Leverage			
Cash	1.0%	2.0%	2.50%
Asset Allocation Leverage	-	-6.0%	2.70%
Expected Return	100.00%	100.00%	7.23%
¹ Target allocations are based on the Strategic Asset Allocation as of FY2019 ² New allocations are based on the Strategic Asset Allocation to be implemented FY2020 ³ 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1% ⁴ New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds ⁵ 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility			

g. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability:	\$ 1,299,175	\$ 845,187	\$ 477,369

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

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

District's proportionate share of the collective net pension liability	\$ 845,187
State's proportionate share that is associated with the District	<u>1,822,313</u>
Total	<u>\$ 2,667,500</u>

The net pension liability was measured as of the previous measurement date and rolled forward to the current measurement date and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the measurement period.

On the measurement date, the employer's proportion of the collective net pension liability and the percentage increase (decrease) from its proportion measured as of the previous measurement date are shown in the required supplementary information in Exhibit G-2.

Changes Since the Prior Actuarial Valuation

- The single discount rate on the previous measurement date was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent on the measurement date.
- With the enactment of SB 3 by the 2019 Texas Legislature, and assumption has been made about how this would impact future salaries. It is assumed that eligible active members will receive a \$2,700 increase in fiscal year 2020. This is an addition to the salary increase expected in the actuarial assumptions
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2018 in either the matching amount of their monthly annuity payment or \$2,000 whichever is less.

For the current fiscal year, the District recognized the following:

Year Ended August 31, 2020 pension expense	\$ 477,545
Revenue for support provided by the State	<u>\$ 286,260</u>

At the end of the current fiscal year, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 3,551	\$ 29,346
Changes in actuarial assumptions	262,218	108,361
Differences between projected and actual investment earnings	8,487	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	138,114	32,867
Total as of August 31, 2019 measurement date	\$ 412,370	\$ 170,574
Contributions paid to TRS subsequent to the measurement date	60,160	
Total as of fiscal year-end	\$ 472,530	\$ 170,574

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

Fiscal year ended August 31,	Pension Expense Amount
2021	\$ 66,766
2022	56,253
2023	56,318
2024	46,581
2025	22,059
Thereafter	(6,181)

X. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description

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

OPEB Plan Fiduciary Net Position / Applicable Disclosure Dates

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

For disclosure in this footnote, applicable dates and periods are as follows: 1) the fiscal year reporting date and period are August 31, 2019 and the twelve months then ended; 2) the measurement date for the pension data was August 31, 2019 (date of actuarial valuation) and the measurement period was the period September 1, 2018 through August 31, 2019; 3) the previous measurement date and date of prior actuarial valuation was August 31, 2018.

Benefits Provided

TRS-Care provides health insurance coverage to 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 non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. 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 retirees are reflected in the following table.

TRS-Care Monthly Premiums Rates		
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$135	\$200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1020	999

Contribution

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

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

	Contribution Rates	
	<u>2019</u>	<u>2020</u>
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 19,584
Current fiscal year member contributions		\$ 15,663
2019 measurement year NECE on-behalf contributions		\$ 25,666

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 \$73.6 million in fiscal year 2019.

Actuarial Assumptions

The total OPEB liability in the previous actuarial valuation was rolled forward to the current measurement date. The actuarial valuation was determined using the following actuarial assumptions:

<u>Actuarial Methods and Assumptions:</u>	
Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
<u>Additional Actuarial Methods and Assumptions:</u>	
Valuation Date	August 31, 2018, rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65
Expenses	Thirty-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Salary Increases	3.05% to 9.05%, including inflation
Ad-hoc Post Employment Benefit Changes	None

The assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the previous measurement date TRS pension actuarial valuation that was rolled forward to the measurement date.

The impact of the Cadillac Tax that is returning in fiscal year 2023, 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 2.30%
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustment 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 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% in the discount rate since the previous year. The Discount Rate can be found in the 2019 TRS CAFR on page 71. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at a statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected *to not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.63%)	Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
Proportionate share of the net OPEB liability	\$ 1,554,011	\$ 1,287,157	\$ 1,078,396

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

For the current fiscal year reporting date, the District reported a liability of \$1,287,157 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 1,287,157
State's proportionate share that is associated with the District	1,710,343
Total	<u>\$ 2,997,500</u>

The Net OPEB Liability for the previous measurement date was rolled forward to the current measurement date 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 measurement period.

The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 1,050,017	\$ 1,287,157	\$ 1,604,814

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 3.69 percent as of the previous measurement date to 2.63 percent as of the current measurement date. This change increased the total OPEB liability (TOL).
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouse of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the current fiscal year reporting period, the District recognized OPEB expense of \$103,902 and revenue of \$45,078 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 63,146	\$ 210,629
Changes in actuarial assumptions	71,491	346,213
Differences between projected and actual investment earnings	139	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	176,752	-
Contributions paid to TRS subsequent to the measurement date	19,584	
Total as of fiscal year-end	\$ 331,112	\$ 556,842

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

Fiscal year ended August 31,	OPEB Expense Amount
2021	\$ (47,032)
2022	(47,032)
2023	(47,077)
2024	(47,104)
2025	(47,097)
Thereafter	(9,972)

REQUIRED SUPPLEMENTARY INFORMATION

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,510,419	\$ 1,510,419	\$ 1,486,498	\$ (23,921)
5800 State Program Revenues	2,309,366	2,309,366	2,536,208	226,842
5900 Federal Program Revenues	-	-	26,571	26,571
5020 Total Revenues	3,819,785	3,819,785	4,049,277	229,492
EXPENDITURES:				
Current:				
0011 Instruction	2,184,555	2,184,555	2,058,779	125,776
0012 Instructional Resources and Media Services	17,083	22,083	15,274	6,809
0013 Curriculum and Instructional Staff Development	3,650	8,650	1,342	7,308
0023 School Leadership	249,804	254,804	247,178	7,626
0031 Guidance, Counseling, and Evaluation Services	69,205	74,205	67,915	6,290
0033 Health Services	21,270	31,270	20,184	11,086
0034 Student (Pupil) Transportation	99,394	104,394	81,804	22,590
0035 Food Services	-	5,000	4,256	744
0036 Extracurricular Activities	184,629	184,629	142,996	41,633
0041 General Administration	260,234	280,234	265,042	15,192
0051 Facilities Maintenance and Operations	493,336	533,336	493,978	39,358
0053 Data Processing Services	28,597	31,097	28,549	2,548
0061 Community Services	4,000	59,000	41,071	17,929
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	434,000	413,012	20,988
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	82,042	67,042	59,190	7,852
0099 Other Intergovernmental Charges	75,000	70,000	64,695	5,305
6030 Total Expenditures	3,772,799	4,344,299	4,005,265	339,034
1100 Excess (Deficiency) of Revenues Over (Under)	46,986	(524,514)	44,012	568,526
Expenditures				
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(43,372)	(53,372)	(25,758)	27,614
1200 Net Change in Fund Balances	3,614	(577,886)	18,254	596,140
0100 Fund Balance - September 1 (Beginning)	3,662,994	3,662,994	3,662,994	-
3000 Fund Balance - August 31 (Ending)	\$ 3,666,608	\$ 3,085,108	\$ 3,681,248	\$ 596,140

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Pension Liability (Asset)	0.001625887%	0.001551497%	0.0014424%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 845,187	\$ 853,981	\$ 461,197
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	1,822,313	1,984,082	1,164,823
Total	<u>\$ 2,667,500</u>	<u>\$ 2,838,063</u>	<u>\$ 1,626,020</u>
District's Covered Payroll	\$ 2,232,830	\$ 2,141,394	\$ 2,033,398
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	37.85%	39.88%	22.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.24%	73.74%	82.17%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.0016107%	0.001437%	0.0007381%
\$ 608,647	\$ 507,960	\$ 197,156
1,423,333	1,209,512	1,011,568
<u>\$ 2,031,980</u>	<u>\$ 1,717,472</u>	<u>\$ 1,208,724</u>
\$ 2,004,969	\$ 1,752,696	\$ 1,669,576
30.36%	28.98%	11.81%
78.00%	78.43%	83.25%

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 60,160	\$ 56,830	\$ 52,025
Contribution in Relation to the Contractually Required Contribution	(60,160)	(56,830)	(52,025)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 2,409,794	\$ 2,232,830	\$ 2,141,394
Contributions as a Percentage of Covered Payroll	2.50%	2.55%	2.43%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

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

2017		2016		2015	
\$	47,270	\$	50,599	\$	18,458
	(47,270)		(50,599)		(18,458)
\$	-	\$	-	\$	-
\$	2,033,398	\$	2,004,969	\$	1,752,696
	2.32%		2.52%		1.05%

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.002721765%	0.002606192%	0.00237122%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 1,287,157	\$ 1,301,296	\$ 1,031,155
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	1,710,343	1,840,824	1,596,359
Total	<u>\$ 2,997,500</u>	<u>\$ 3,142,120</u>	<u>\$ 2,627,514</u>
District's Covered Payroll	\$ 2,232,830	\$ 2,142,394	\$ 2,033,398
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	57.65%	60.77%	50.71%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.66%	1.57%	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2020 are for the measurement date of August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

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

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 119,584	\$ 19,317	\$ 17,989
Contribution in Relation to the Contractually Required Contribution	(19,584)	(19,317)	(17,989)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 2,409,794	\$ 2,232,830	\$ 2,141,394
Contributions as a Percentage of Covered Payroll	0.81%	0.87%	0.84%

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

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

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2020**

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

Changes Since the Prior Actuarial Valuation

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, and assumption has been made about how this would impact future salaries. It is assumed that eligible active members will receive a \$2,700 increase in fiscal year 2020. This is an addition to the salary increase expected in the actuarial assumptions
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2018 in either the matching amount of their monthly annuity payment or \$2,000 whichever is less.

B. Notes to Schedules for the TRS OPEB Plan

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the total OPEB liability (TOL).
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouse of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2020**

C. Stewardship, Compliance and Accountability

Budget

The Board of Trustees (local school board) is legally required to adopt an annual budget (on a 12-month basis) for the general fund, the food service fund, and the debt service fund. The budgets must be prepared by August 20 and adopted by the local school board before expenditures are made and, if applicable, before the tax rate for the year is adopted. The required supplementary information for the general fund budget is reported in Exhibit G-1 "Budgetary Comparison Schedule – General Fund. The required Texas Education Agency (TEA) schedules for the food service fund and the debt service fund are presented in Exhibit's J-2 "Budgetary Comparison Schedule – Child Nutrition Fund and Exhibit J-3 "Budgetary Comparison Schedule – Debt Service Fund".

Once a budget is approved, it can be amended at the fund and function level only by majority vote of the members of the Board of Trustees.

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

It is a violation of Texas State Law for expenditures to exceed the budget in any function of the general fund, the food service fund, or the debt service fund.

Expenditures Exceeding Appropriation

The current year expenditures did not exceed appropriations in any functions in the general fund as detailed in Exhibit G-1 "Budgetary Comparison Schedule -General Fund". The current year expenditures also did not exceed appropriations in any functions in the food service fund as detailed in Exhibit J-2 "Budgetary Comparison Schedule -Child Nutrition Fund".

**OTHER SUPPLEMENTARY INFORMATION –
COMBINING SCHEDULES**

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2020

Data		211	212	224	225
Control		ESEA I, A	ESEA Title I	IDEA - Part B	IDEA - Part B
Codes		Improving	Part C	Formula	Preschool
		Basic Program	Migrant		
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from Other Governments	12,953	6,560	-	490
1000	Total Assets	<u>\$ 12,953</u>	<u>\$ 6,560</u>	<u>\$ -</u>	<u>\$ 490</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	4,875	605	-	444
2170	Due to Other Funds	7,544	5,889	-	-
2200	Accrued Expenditures	534	66	-	46
2000	Total Liabilities	<u>12,953</u>	<u>6,560</u>	<u>-</u>	<u>490</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 12,953</u>	<u>\$ 6,560</u>	<u>\$ -</u>	<u>\$ 490</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	470 Wind Turbine Fund	Total Nonmajor Governmental Funds
\$ 2,091	\$ -	\$ -	\$ -	\$ -	\$ 704	\$ 50,000	\$ 52,795
4,362	-	2,192	12,033	1,830	-	-	40,420
<u>\$ 6,453</u>	<u>\$ -</u>	<u>\$ 2,192</u>	<u>\$ 12,033</u>	<u>\$ 1,830</u>	<u>\$ 704</u>	<u>\$ 50,000</u>	<u>\$ 93,215</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 704	\$ -	\$ 704
4,364	-	-	1,975	-	-	-	12,263
-	-	2,192	9,842	1,830	-	-	27,297
95	-	-	216	-	-	-	957
<u>4,459</u>	<u>-</u>	<u>2,192</u>	<u>12,033</u>	<u>1,830</u>	<u>704</u>	<u>-</u>	<u>41,221</u>
1,994	-	-	-	-	-	-	1,994
-	-	-	-	-	-	50,000	50,000
<u>1,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>51,994</u>
<u>\$ 6,453</u>	<u>\$ -</u>	<u>\$ 2,192</u>	<u>\$ 12,033</u>	<u>\$ 1,830</u>	<u>\$ 704</u>	<u>\$ 50,000</u>	<u>\$ 93,215</u>

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	60,133	12,723	15,404	6,112
5020 Total Revenues	60,133	12,723	15,404	6,112
EXPENDITURES:				
Current:				
0011 Instruction	60,133	12,723	15,404	6,112
0035 Food Services	-	-	-	-
6030 Total Expenditures	60,133	12,723	15,404	6,112
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	470 Wind Turbine Fund	Total Nonmajor Governmental Funds
\$ 20,271	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 70,271
613	-	-	-	-	7,957	-	8,570
123,674	1,418	6,290	24,198	7,500	-	-	257,452
144,558	1,418	6,290	24,198	7,500	7,957	50,000	336,293
-	1,418	6,290	24,198	7,500	7,957	-	141,735
168,332	-	-	-	-	-	-	168,332
168,332	1,418	6,290	24,198	7,500	7,957	-	310,067
(23,774)	-	-	-	-	-	50,000	26,226
25,758	-	-	-	-	-	-	25,758
1,984	-	-	-	-	-	50,000	51,984
10	-	-	-	-	-	-	10
\$ 1,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 51,994

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2020

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2011 and prior years	Various	Various	\$ Various
2012	1.170000	0.098000	78,921,400
2013	1.130000	0.085000	90,776,008
2014	1.170000	0.085000	98,482,828
2015	1.170000	0.080000	112,461,623
2016	1.170000	0.000000	107,584,667
2017	1.170000	0.000000	96,632,055
2018	1.170000	0.000000	118,527,675
2019	1.170000	0.000000	123,045,008
2020 (School year under audit)	1.068400	0.000000	128,086,227
1000 TOTALS			

(10) Beginning Balance 9/1/2019	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2020
\$ 5,887	\$ -	\$ 790	\$ -	\$ (578)	\$ 4,519
1,492	-	170	-	(58)	1,264
1,340	-	163	-	(62)	1,115
1,886	-	146	-	(83)	1,657
3,566	-	395	-	(83)	3,088
3,969	-	303	-	(106)	3,560
7,737	-	942	-	(110)	6,685
11,645	-	2,037	-	(129)	9,479
26,034	-	14,338	-	145	11,841
-	1,368,409	1,345,113	-	-	23,296
<u>\$ 63,556</u>	<u>\$ 1,368,409</u>	<u>\$ 1,364,397</u>	<u>\$ -</u>	<u>\$ (1,064)</u>	<u>\$ 66,504</u>

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 24,100	\$ 24,100	\$ 20,271	\$ (3,829)
5800 State Program Revenues	600	600	613	13
5900 Federal Program Revenues	93,500	93,500	123,674	30,174
5020 Total Revenues	118,200	118,200	144,558	26,358
EXPENDITURES:				
Current:				
0035 Food Services	161,517	171,517	168,332	3,185
6030 Total Expenditures	161,517	171,517	168,332	3,185
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(43,317)	(53,317)	(23,774)	29,543
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	43,372	53,372	25,758	(27,614)
1200 Net Change in Fund Balances	55	55	1,984	1,929
0100 Fund Balance - September 1 (Beginning)	10	10	10	-
3000 Fund Balance - August 31 (Ending)	\$ 65	\$ 65	\$ 1,994	\$ 1,929

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

James E. Rodgers and Company, P.C.

Certified Public Accountants

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

E-mail: rodgerscpa@att.net

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

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

November 9, 2020

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

Independent Auditor's Report

To the Board of Trustees
Roby Consolidated Independent School District
Roby, Texas 79543

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Roby Consolidated Independent School District, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise Roby Consolidated Independent School District's basic financial statements, and have issued our report thereon dated November 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Roby Consolidated Independent School District's internal control over financial reporting (internal control) as a basis for designing 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 Roby Consolidated Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Roby Consolidated Independent School District's internal control.

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

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

James E. Rodgers and Company, P.C.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

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

James E. Rodgers and Company, P.C.

ADMINISTRATION

Jason Carter
Interim Superintendent

Jason Carter
HS Principal

Misty McWilliams
EL/JH Principal

**ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**

P.O. Box 519 • 141 South College Street • Roby, Texas 79543
325-776-2222 (school) • 325-267-2622 (fax) • www.robycisd.org

BOARD OF TRUSTEES

Jeff Posey
President

Stormy Rasberry
Vice President

Chris Estes
Secretary

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED AUGUST 31, 2020**

I. Summary of Auditor Results:		
1.	Type of report issued on the financial statements:	Unmodified
2. a.	Significant deficiencies in internal control:	None
b.	Significant deficiencies that were material weaknesses:	None
3.	Noncompliance, which is material to financial statements:	None

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

Finding 2020-001:		
a.	Condition:	No current year findings, thus not applicable
b.	Criteria:	No current year findings, thus not applicable
c.	Cause:	No current year findings, thus not applicable
d.	Effect:	No current year findings, thus not applicable
e.	Recommendation:	No current year findings, thus not applicable
f.	District Response:	No current year findings, thus not applicable

SCHOOLS FIRST QUESTIONNAIRE

ROBY CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2020

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
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?	No
SF3	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? (If there was a warrant hold not cleared in 30 days, then not timely.)	Yes
SF4	Was the school district issued a warrant hold? (Yes even if cleared within 30 days.)	No
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 post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules in effect at the fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	0

APPENDIX C

FORMS OF CO-BOND COUNSEL'S OPINION

February 25, 2021

Roby Consolidated Independent School District
Unlimited Tax School Building Bonds, Series 2021

(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel to the Roby Consolidated Independent School District (the “District”) in connection with the issuance of \$9,795,000 aggregate principal amount of bonds designated as “Roby Consolidated Independent School District Unlimited Tax School Building Bonds, Series 2021” (the “Bonds”). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the “Board”) on January 28, 2021 (the “Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the “Tax Certificate”), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or

severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the District.
2. The Board has power and is obligated to levy an annual ad valorem tax, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

February 25, 2021

Roby Consolidated Independent School District
Unlimited Tax School Building Bonds, Series 2021

We have acted as co-bond counsel to the Roby Consolidated Independent School District, a political subdivision of the state of Texas located in Fisher County, Texas and Jones County, Texas (the “*Issuer*” or, the “*District*”) in connection with the issuance of \$9,795,000 aggregate principal amount of bonds designated as “Roby Consolidated Independent School District Unlimited Tax School Building Bonds, Series 2021” (the “*Bonds*”). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the “*Board*”) on January 28, 2021 (the “*Order*”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have acted as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the Issuer with respect to the Issuer’s current outstanding indebtedness.

In our capacity as co-bond counsel, we have examined the Constitution and laws of the State of Texas; and a transcript of certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates.

Based on our examination, it is our opinion that:

1. The Bonds have been authorized, sold, and delivered in accordance with law.
2. The Bonds constitute valid and legally binding Bonds of the Issuer enforceable in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally.
3. The Bonds are direct obligations of the Issuer, payable from a continuing, direct ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District’s boundaries.

In rendering these opinions, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, which we have not independently verified.

In rendering this opinion, we are further advising you that the enforceability of rights and remedies with respect to the Bonds and the Order, as set forth in paragraph 2 above, may be limited by bankruptcy, insolvency and other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The opinions set forth above are based on existing laws of the United States and the State of Texas which are subject to change. Such opinions are further based on our knowledge of the facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective.

This legal opinion expresses the professional judgment of the undersigned firm as to the legal issues explicitly addressed herein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

SARA LEON & ASSOCIATES, PLLC

