



**STATE OF MISSISSIPPI**  
GOVERNOR TATE REEVES

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

LIZ WELCH  
EXECUTIVE DIRECTOR

**FINANCIAL ADVISOR SERVICES CONTRACT  
FOR THE MASTER LEASE PURCHASE PROGRAMS**

This Financial Advisor Services Contract (Contract) for the Master Lease Purchase Programs is made by and between the State of Mississippi Department of Finance and Administration (DFA or State), on behalf of the Office of Purchasing, Travel and Fleet Management (OPTFM), and Hilltop Securities, Inc., (Advisor) effective October 13, 2021, under the following terms and conditions under which the Advisor agrees to provide services to DFA.

**1. Scope of Services**

- 1) Basic Program. Advisor shall assist DFA, whether public or private placement, for obtaining tax-exempt funding for the DFA's Master Lease Purchasing Program (MLPP or Program), including the preparation of basic financing documents, offering documents, and supporting documentation, in a manner which will result in financing offerings which are acceptable to financial markets and institutions and must not have a negative impact upon any other aspect of the State's financing opportunities. All documents and forms used shall be documents approved and adopted October 13, 2021 by the State Bond Commission.
- 2) Process. Advisor shall develop and administer the entire process from needs recognition to final payment with all applicable documentation. Advisor will also be expected to provide the DFA with checklists of occurrences which the DFA should consider throughout the process. It is understood that the process described herein is representative of a process of funding which utilizes Certificates of Participation (COPs). It should be clear from these requirements that the DFA does not intend to perform many functions in-house but rather that Advisor will be expected to perform a vast majority of the required activities.
- 3) The Advisor shall periodically survey K-12 School Districts, Community and Junior College Districts and State Agencies to determine immediate and projected equipment needs. The equipment needs are required to be submitted to the DFA, OPTFM and Contractor using the approved Equipment Lease/Purchase Planning Form on an as needed basis, to consolidate the equipment lease-purchase requirements of one or more Districts and the equipment lease purchase requirements of one or more State Agencies. This shall include, but not be limited to, developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in

understanding the Programs. All documents developed by Advisor related to the entire MLPPs shall be provided in a Word format, and transmitted electronically, to enable the OPTFM to use the documents on all future issues of this and future Programs.

- 4) Advisor shall manage and coordinate the pre-financing process with the participating Districts and State Agencies.
- 5) Advisor shall educate potential participants (Districts, State Agencies, vendors, etc.) to ensure the potential participants have a sound working knowledge of the program, its structure, and applicable accounting and purchasing procedures. It should be noted that this often requires multiple one-on-one meetings and phone conversations with various individuals throughout the Districts and State Agencies. This educational plan includes, but is not limited to:
  - a. Assisting and educating the Districts and State Agencies in order that the Districts and State Agencies gain an understanding of the Program's procurement and acquisition process.
  - b. Having staff available for statewide travel to meet with Districts and State Agencies and to make presentations to department personnel, as well as attend statewide conferences of purchasing officials.
- 6) Advisor shall consolidate the information received from the Districts and State Agencies. Advisor will analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.
- 7) If the acquisition involves software, Advisor shall examine the software license to determine, among other things, if a perpetual license is created so that a security interest in the software can be obtained.
- 8) Upon District and State Agency requests, Advisor shall create preliminary amortization schedules, usually necessary for budgetary purposes. This schedule is often used by the Districts and State Agencies to determine the economic feasibility of acquiring the equipment through financing.
- 9) Advisor shall create a spreadsheet with breakdowns by District and State Agency of equipment description, equipment cost, anticipated delivery, and acceptance dates.
- 10) Advisor shall contact the OPTFM with results of District and State Agency communications and make recommendations as to the timing of the next issue or, if necessary, obtain interim financing for specific pieces of equipment. If interim financing is requested and approved by the Office, Advisor will obtain an interim rate and prepare and distribute interim financing documentation.

- 11) If the entity is a State Agency, the OPTFM and the Public Procurement Review Board (PPRB) will approve or disapprove the list of equipment as indicated on the spreadsheet. Advisor shall gather information as to the essential governmental use of the equipment, as well as the State Agency's justification for the acquisition. This involves communication with each State Agency, as well as gathering information directly from potential vendors or from potential vendor brochures and pamphlets (NOTE: any acquisitions proposed in the Program must follow all applicable procurement rules and regulations, including competitive solicitations where applicable, once the acquisition schedule is approved by the PPRB). Additionally, if the State Agency is establishing a Program that is designed to evolve over a period of time and will require equipment acquisitions in stages, Advisor will acquire a full understanding of the Program from its inception to full implementation to assist the State Agency in accurately assessing its equipment purchases. After the information has been received, Advisor will draft a description of each item of equipment being acquired to be included in offering materials and will provide a copy of the list to each State Agency to allow a review of the accuracy of the description prior to inclusion in the offering materials.
- 12) If the entity is a School District, or Community or Junior College District, the entities are required to provide an approved/adopted Authorizing Resolution signed by the proper authorized agent and a completed certificate as to the authenticity of the Resolution. This action is necessary to authorize the entity to participate in the program. In addition to the authorizing Resolution, the previously referenced equipment spreadsheet is then reviewed by the Advisor and the OPTFM, and each will approve or disapprove the list of equipment as indicated on the spreadsheet.
- 13) If equipment involves telecommunications or computer equipment, Advisor shall obtain necessary approval from the Mississippi Department of Information Technology Services in addition to the OPTFM.
- 14) Advisor shall prepare an initial sizing of the Program to determine time of financing.
- 15) Advisor shall determine market conditions by analyzing interest rates and reviewing comparable sales analyses and other market activity to optimize pricing, check forward municipal calendar, or private investor banks and contact the OPTFM, before making a recommendation as to timing of the deal.
- 16) Advisor shall analyze the structure of the financing from the perspective of state law and federal tax and securities laws and determine potential financing participants.
- 17) Advisor shall prepare basic financing documents, closing certificates, suggested opinions to be rendered at closing, offering materials, and documents required to assign title to certain equipment to the Mississippi Department of Information Technology Services, if applicable.
- 18) Advisor shall distribute financing documents to all applicable parties at no additional cost.

- 19) If applicable, Advisor shall develop a rating strategy and presentation, prepare rating application, and submit to the rating agency after approval from the DFA. Advisor shall also be responsible for obtaining a rating release from the rating agency, and, if applicable, credit enhancement for the Program.
- 20) Advisor shall solicit program fees and make award recommendation for the selected MLPP Trustee, Trustee's attorney, and rating agency, if applicable.
- 21) Advisor shall revise documents pursuant to communications with parties to the transaction and distribute second drafts, if necessary, to all parties at no additional cost.
- 22) Advisor shall arrange for a bid process in order to obtain a guaranteed investment contract, if applicable. Advisor may not submit a bid on its behalf.
- 23) If financing through a public competitive bid process, Advisor shall prepare and arrange for publication notices of sale in the appropriate publications. Advisor shall register the sale through SureBid or a similar service for the purpose of receipt of bids deposits through SureBid. Advisor shall coordinate with Bidcomp/PARITY to arrange for receipt of online bids. Advisor either will attend the bid opening or will coordinate with the DFA by conference call and will analyze the bids and make a recommendation as to the low bidder.
- 24) Advisor shall prepare the Preliminary Offering Circular and the Final Offering Circular. Advisor will arrange for electronic distribution of the Preliminary Offering Circular through the services of I-deal or a similar service. Advisor shall prepare and will arrange for the printing and distribution of the Final Offering Circular to the winning underwriter. Advisor shall prepare the Certificates of Participation and proof of accuracy documents, and forward to the Trustee for authentication and delivery to The Depository Trust Company (DTC).
- 25) If financing through a privately-placed competitive bid process, the Contractor shall prepare "The Term Sheet and proposal to Purchase State of Mississippi Master Lease Revenue COPs" and with the approval of the State, shall solicit bids from qualified purchasers who are either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended) or a qualified institutional buyer as defined under Rule 144A of the Securities Act of 1933, as amended, to purchase the COPs. (NOTE: Fees and expenses incurred by the Purchaser and owed to Purchaser's Counsel, if any, will be borne by the Purchaser and not by the State).
- 26) Advisor shall prepare amortization schedules by District and State Agency and, if requested, by group or piece of equipment and will communicate with each District and State Agency to verify final equipment amounts and lease terms and anticipated delivery schedules.
- 27) Advisor shall finalize financing and closing documents, attach amortization schedules, prepare multiple execution copies, coordinate receipt of executed opinions, and hold in escrow pending closing.

- 28) If an investment contract is obtained, Advisor shall coordinate receipt of accountant's verification report and opinion verifying cash flows under the lease, together with interest earnings derived from the investment contract, will be adequate to pay debt service on the Financing Agreement.
- 29) Advisor shall coordinate with the OPTFM to arrange pre-closing meetings with each District and State Agency, if necessary, travel to and attend pre-closing, obtain signatures of authorized representatives of each District and State Agency, as well as any other necessary signatures.
- 30) Advisor shall prepare and file applications for the receipt of CUSIP numbers in the event of a competitive sale and will file for eligibility under the DTC, coordinate closing with the Trustee, including preparation of the closing statement detailing flow of funds from investors to Trustee, and from Trustee to trust accounts.
- 31) Advisor shall provide investment instructions for escrowed funds in the Acquisition Account pursuant to the Trust Indenture.
- 32) Advisor shall confirm wiring instructions and confirm receipt of funds.
- 33) Advisor shall provide Trustee with executed counterparts of financing documents, opinions, certificates as to tax and no-arbitrage, and IRS Form 8038-G.
- 34) Advisor shall confirm with DTC that the documents have been received.
- 35) Advisor shall confirm settlement and closing with Trustee.
- 36) Advisor shall prepare and file UCC-1 Financing Statements and UCC-3 statements, if any, for each District and State Agency with the Secretary of State of the State of Mississippi. Advisor will prepare and timely file Form 8038-G with the Internal Revenue Service on behalf of DFA.
- 37) Advisor shall prepare and distribute closing transcripts.
- 38) Advisor shall prepare and distribute to the State a post-sale analysis detailing the results and market conditions for each competitive sale.
- 39) Advisor shall coordinate equipment acquisitions between Program participants and vendors.
- 40) As Disbursement Requests are received, Advisor shall review the applicable purchase orders, invoices, and vendor contracts for consistency and recalculate pricing accuracy.

- 41) Advisor shall match each Disbursement Request to the original spreadsheet to ensure that the equipment was contemplated for acquisition under the Program and review requested substitutions.
- 42) Advisor shall maintain balances for each piece of equipment and for each District and State Agency in conjunction with the Trustee.
- 43) Advisor shall transmit Disbursement Requests with proper attachments (e.g., purchase orders, invoices, and declaration of intent to reimburse) to Trustee for vendor payment.
- 44) Advisor shall prepare customized semi-annual invoices in summary and by District and State Agency and by equipment within a District and State Agency, if requested. Advisor will distribute invoices to the individual District and State Agency and the Director of the DFA Office of Budget and Accounting 30 days prior to payment date.
- 45) Advisor shall coordinate with Trustee on lease payment discrepancies and late payments.
- 46) Advisor, on behalf of the Trustee, shall request copies of insurance policies or evidence of self-insurance on each District and State Agency and will request updated information on an annual basis.
- 47) Advisor shall assist the State in obtaining annual rebate and arbitrage calculations in compliance with federal tax law. The annual calculations will be provided at the State's expense.
- 48) Advisor periodically contact each District and State Agency with respect to draw-downs in the respective Acquisition Accounts. Based on the Districts' and State Agencies' responses, Advisor will direct the Trustee to reinvest the acquisition funds in qualified investments, in accordance with the provision of the Trust Indenture.
- 49) Advisor shall perform semi-annual calculations to determine interest earnings in the Acquisition Account by District and State Agency and by equipment within a District and State Agency. After all rebate calculations have been performed, Advisor will determine the amount of interest earnings available for each District and State Agency, and will notify DFA of this amount. Advisor will arrange for the disbursements of such interest earnings at the discretion of DFA.
- 50) Semi-annually, Advisor shall report the status of the Acquisition Accounts by District and State Agency for all outstanding leases to the DFA OPTFM.
- 51) If prepayment options are exercised, Advisor shall coordinate with the District, State Agency, and Trustee in calculating pay-off amounts and timing.
- 52) Documents. Advisor shall assure that the process and documents comply with Rule 15(c) 2-12, as amended.

- 53) Laws. Advisor shall assure that all documents and procedures will comply with all federal and state laws and regulations governing the MLPP and will advise the State of any responsibilities concerning such laws which are or may be responsibilities of the State.
- 54) Legal Matters and Tax Exemption. Advisor shall prepare sample legal opinions which will support the documents and the process and indicate that the State's execution and delivery of any such documents will be subject to review and approval of the State's counsel. The State will be responsible for the cost of review by its counsel of all documentation related to the Agreement and any resulting funding. The Attorney General of the State will deliver an opinion that the Agreement and the supporting documentation constitute legal, valid, and binding obligations of the State, enforceable against the State and in accordance with their respective terms. Likewise, Advisor shall insure the State's approved tax counsel provides a tax counsel opinion to the State on the legality of documents, tax exempt status and conformity with Internal Revenue Code Regulations, which tax counsel opinion shall indicate that the State is qualified as a political subdivision under Section 103 of the Internal Revenue Code of 1986 and that the interest portion of any payments will constitute interest not to be included in gross income for purposes of federal and state income taxation. The State and Advisor will covenant to comply with all rules, regulations, or procedures required in order to establish or preserve the tax-exempt nature of any resulting certificates. Any resulting financing will not be a general obligation of the State.
- 55) Acquisition Fund. The documents and process shall insure that any interest earned on funds residing in the Acquisition Account shall accrue to the District and State Agency which has borrowed the funds and may be used to purchase additional equipment and/or to reduce the principal amount due, as directed by DFA.
- 56) Non-appropriation. The documents and process shall insure that continuation of the lease purchase of any item of equipment is contingent upon the annual appropriation of adequate funds to the using District and State Agency.
- 57) Miscellaneous. Advisor shall coordinate with DFA to maintain and update, as needed, the State's website for the MLPP.
- 58) Advisor shall assist the OPTFM in the development of a solicitation for Bond and Tax Counsel.
- 59) Advisor shall assist the OPTFM in the development of a solicitation for the MLPP Trustee.

## **2. Contract Term**

- A. The effective date of this Contract will be October 13, 2021. This Contract's term will be for three (3) years with two (2) optional one-year renewal to be exercised in the discretion of the DFA.

- B. All records and information provided by the DFA to the Advisor are the sole property of the DFA and shall be returned to the DFA within thirty (30) days of the termination date of this Contract.
- C. Upon termination of this Contract, the Advisor shall cooperate with the DFA and the new Advisor during the transition of the DFA's business to the new Advisor. Upon request from the DFA, the Advisor shall provide all DFA information maintained by the Advisor in a time frame specified by the DFA.

**3. Consideration**

The DFA agrees to compensate the Advisor for services approved by the DFA and performed by the Advisor under the terms of this Contract as follows:

The Contractor shall be paid a base fee of \$10.00 per \$1,000 issued for K-12 School Districts and Community and Junior College Districts as well as State Agencies. Other costs of issuance may include, but are not limited to, rating fees (approximately \$10,000-\$15,000), trustee fees and trustee reserve fees (approximately \$5,000), special tax counsel fees (approximately \$4,500), special filing fees, such as aircraft filings, costs of distributing/printing offering documents through i-Deal, and arbitrage calculations (if applicable) will be included in each MLPP Series and will be passed through at cost. The fees shall be deducted from the proceeds from any debt issuance.

The Advisor will be required to reimburse DFA for any fees collected which are determined by the DFA, on the basis of audits, not to constitute allowable costs.

**4. Availability of Funds**

It is expressly understood and agreed that the obligation of the DFA to proceed under this Contract is conditioned upon the appropriation of funds by the Mississippi State Legislature and the receipt of state and/or federal funds. If the funds anticipated for the continuing fulfillment of the Contract are, at any time, not forthcoming or insufficient, either through the failure of the federal government to provide funds or of the State of Mississippi to appropriate funds or the discontinuance or material alteration of the program under which funds were provided or if funds are not otherwise available to the DFA, the DFA shall have the right upon ten (10) working days written notice to Advisor, to terminate this Contract without damage, penalty, cost or expenses to the DFA of any kind whatsoever. The effective date of termination shall be as specified in the notice of termination.

**5. E-Payment**

Advisor agrees to accept all payments in United States currency via the State of Mississippi's electronic payment and remittance vehicle. The Agency agrees to make payment in accordance with Mississippi law on "Timely Payments for Purchases by Public Bodies," which generally provides for payment of undisputed amounts by the agency within forty-five (45) days of receipt of invoice. Mississippi Code Annotated § 31-7-301 *et seq.*

**6. Paymode**

Payments by state agencies using the State's accounting system shall be made and remittance information provided electronically as directed by the State. These payments shall be deposited into the bank account of Advisor's choice. The State may, at its sole discretion, require Advisor to electronically submit invoices and supporting documentation at any time during the term of this Contract. Advisor understands and agrees that the State is exempt from the payment of taxes. All payments shall be in United States currency.

**7. Recovery of Money**

Whenever, under the Contract, any sum of money shall be recoverable from or payable by the Advisor to the DFA, the same amount may be deducted from any sum due to the Advisor under the Contract or under any other Contract between the Advisor and the DFA. The rights of the DFA are in addition and without prejudice to any other right the DFA may have to claim the amount of any loss or damage suffered by the DFA on account of the acts or omissions of the Advisor.

**8. Applicable Law**

The Contract shall be governed by and construed in accordance with the laws of the State of Mississippi, excluding its conflicts of laws provisions, and any litigation with respect thereto shall be brought in the courts of the State. Advisor shall comply with applicable federal, state, and local laws and regulations.

**9. Compliance with Laws**

Advisor understands that DFA is an equal opportunity employer and, therefore, maintains a policy which prohibits unlawful discrimination based on race, color, creed, sex, age, national origin, physical handicap, disability, genetic information, or any other consideration made unlawful by federal, State, or local laws. All such discrimination is unlawful and Advisor agrees during the term of this Contract that Advisor will strictly adhere to this policy in its employment practices and provision of services. Advisor shall comply with, and all activities under this Contract shall be subject to, all applicable federal, State of Mississippi, and local laws and regulations, as now existing and as may be amended or modified.

**10. Force Majeure**

Each party shall be excused from performance for any period and to the extent that it is prevented from performing any obligation or service, in whole or in part, as a result of causes beyond the reasonable control and without the fault or negligence of such party and/or its subcontractors. Such acts shall include without limitation acts of God, strikes, lockouts, riots, acts of war, epidemics, governmental regulations superimposed after the fact, fire, earthquakes, floods, or other natural disasters ("force majeure events"). When such a cause arises, Advisor shall notify the State immediately in writing of the cause of its inability to perform, how it affects its performance, and the anticipated duration of the inability to perform. Delays in delivery or in meeting completion dates due to force majeure events shall automatically extend such dates for a period equal to the duration of the delay

caused by such events, unless the State determines it to be in its best interest to terminate the agreement.

**11. Anti-Assignment/Subcontracting**

Advisor acknowledges that it was selected by the State to perform the services required hereunder based, in part, upon Advisor's special skills and expertise. Advisor shall not assign, subcontract, or otherwise transfer this agreement, in whole or in part, without the prior written consent of the State, which the State may, in its sole discretion, approve or deny without reason. Any attempted assignment or transfer of its obligations without such consent shall be null and void. No such approval by the State of any subcontract shall be deemed in any way to provide for the incurrence of any obligation of the State in addition to the total fixed price agreed upon in this agreement. Subcontracts shall be subject to the terms and conditions of this agreement and to any conditions of approval that the State may deem necessary. Subject to the foregoing, this agreement shall be binding upon the respective successors and assigns of the parties.

**12. Confidentiality**

Notwithstanding any provision to the contrary contained herein, it is recognized that DFA is a public agency of the State of Mississippi and is subject to the Mississippi Public Records Act. Mississippi Code Annotated §§ 25-61-1 *et seq.* If a public records request is made for any information provided to DFA pursuant to the contract and designated by the Advisor in writing as trade secrets or other proprietary confidential information, DFA shall follow the provisions of Mississippi Code Annotated §§ 25-61-9 and 79-23-1 before disclosing such information. The DFA shall not be liable to the Advisor for disclosure of information required by court order or required by law.

**13. Disclosure of Confidential Information**

In the event that either party to this Contract receives notice that a third party requests divulgence of confidential or otherwise protected information and/or has served upon it a subpoena or other validly issued administrative or judicial process ordering divulgence of confidential or otherwise protected information that party shall promptly inform the other party and thereafter respond in conformity with such subpoena to the extent mandated by law. This section shall survive the termination or completion of this Contract. The parties agree that this section is subject to and superseded by Mississippi Code Annotated §§ 25-61-1 *et seq.*

Any liability resulting from the wrongful disclosure of confidential information on the part of Advisor or its subcontractor shall rest with Advisor. Disclosure of any confidential information by Advisor or its subcontractor without the express written approval of the Agency shall result in the immediate termination of this Contract.

**14. Transparency**

This Contract, including any accompanying exhibits, attachments, and appendices, is subject to the "Mississippi Public Records Act of 1983," and its exceptions. See Mississippi Code Annotated §§ 25-61-1 *et seq.* and Mississippi Code Annotated § 79-23-1. In addition,

this Contract is subject to the provisions of the Mississippi Accountability and Transparency Act of 2008. Mississippi Code Annotated §§ 27-104-151 *et seq.* Unless exempted from disclosure due to a court-issued protective order, a copy of this executed Contract is required to be posted to the Mississippi Department of Finance and Administration's independent agency contract website for public access at <http://www.transparency.mississippi.gov>. Information identified by Advisor as trade secrets, or other proprietary information, including confidential Advisor information or any other information which is required confidential by state or federal law or outside the applicable freedom of information statutes, will be redacted.

**15. Contractor Personnel**

The DFA shall, throughout the life of the Contract, have the right of reasonable rejection and approval of staff or subcontractors assigned to the work by the Advisor. If the DFA reasonably rejects staff or subcontractors, the Advisor must provide replacement staff or subcontractors satisfactory to the DFA in a timely manner and at no additional cost to the DFA. The day-to-day supervision and control of the Advisor's employees and subcontractors is the sole responsibility of the Advisor.

**16. Independent Advisor**

The Advisor shall, at all times, be regarded as and shall be legally considered an Independent Advisor and shall at no time act as an agent for the DFA. Nothing contained herein shall be deemed or construed by DFA, Advisor, or any third party as creating the relationship of principal and agent, master and servant, partners, joint ventures, employer and employee, or any similar such relationship between DFA and Advisor. Neither the method of computation of fees or other charges, nor any other provision contained herein, nor any acts of DFA or Advisor hereunder creates, or shall be deemed to create a relationship other than the independent relationship of DFA and Advisor. Advisor's personnel shall not be deemed in any way, directly or indirectly, expressly or by implication, to be employees of DFA. No act performed or representation made, whether oral or written, by the Advisor with respect to third parties shall be binding on the DFA. Neither the Advisor nor its employees shall, under any circumstances, be considered servants, agents, or employees of the DFA; and the DFA shall at no time be legally responsible for any negligence or other wrongdoing by the Advisor, its servants, agents, or employees. DFA shall not withhold from the Contract payments to Advisor any federal or state unemployment taxes, federal or state income taxes, Social Security tax, or any other amounts for benefits to Advisor. Further, DFA shall not provide to Advisor any insurance coverage or other benefits, including Workers' Compensation, normally provided by DFA for its employees.

**17. E-Verification**

If applicable, Advisor represents and warrants that it will ensure its compliance with the Mississippi Employment Protection Act of 2008, and will register and participate in the status verification system for all newly hired employees. Mississippi Code Annotated §§ 71-11-1 *et seq.* The term "employee" as used herein means any person that is hired to perform work within the State of Mississippi. As used herein, "status verification system"

means the Illegal Immigration Reform and Immigration Responsibility Act of 1996 that is operated by the United States Department of Homeland Security, also known as the E-Verify Program, or any other successor electronic verification system replacing the E-Verify Program. Advisor agrees to maintain records of such compliance. Upon request of the State and after approval of the Social Security Administration or Department of Homeland Security when required, Advisor agrees to provide a copy of each such verification. Advisor further represents and warrants that any person assigned to perform services hereafter meets the employment eligibility requirements of all immigration laws. The breach of this Contract may subject Advisor to the following: (i) termination of this Contract for services and ineligibility for any state or public contract in Mississippi for up to three (3) years with notice of such cancellation/termination being made public; (ii) the loss of any license, permit, certification or other document granted to Advisor by an agency, department or governmental entity for the right to do business in Mississippi for up to one (1) year; or, (iii) both. In the event of such cancellations/termination, Advisor would also be liable for any additional costs incurred by the State due to Contract cancellation or loss of license or permit to do business in the State.

**18. Authority to Contract**

Advisor warrants: (a) that it is a validly organized business with valid authority to enter into this Contract; (b) that it is qualified to do business and in good standing in the State of Mississippi; (c) that entry into and performance under this Contract is not restricted or prohibited by any loan, security, financing, contractual, or other contract of any kind; and, (d) notwithstanding any other provision of this Contract to the contrary, that there are no existing legal proceedings or prospective legal proceedings, either voluntary or otherwise, which may adversely affect its ability to perform its obligations under this Contract.

**19. License Requirements**

The Advisor shall have, or obtain, any license/permits that are required prior to and during the performance of work under this Contract.

**20. Debarment and Suspension**

The Advisor certifies to the best of its knowledge and belief, that it: (i) Is not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transaction by any Federal department or agency or any political subdivision or agency of the State of Mississippi; (ii) Has not, within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against it for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction; (iii) Has not, within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against it for a violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property; (iv) Is not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State, or local) with commission of any of these offenses enumerated in paragraphs two (2) and three (3) of this certification; and, (v) Has not, within a three-year period preceding

this proposal, had one or more public transactions (Federal, State, or local) terminated for cause or default.

**21. Modification or Renegotiation**

This Contract may be modified only by written Contract signed by the parties hereto. The parties agree to renegotiate the Contract if federal, state and/or the DFA revisions of any applicable laws or regulations make changes in this Contract necessary.

**22. Representation Regarding Contingent Fees**

Advisor represents that it has not retained a person to solicit or secure a state contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, except as disclosed in Advisor's bid or proposal.

**23. Representation Regarding Gratuities**

The Advisor represents that it has not violated, is not violating, and promises that it will not violate the prohibition against gratuities set forth in Miss. Code Ann. Section 25-4-105.

**24. Termination upon Bankruptcy**

This Contract may be terminated in whole or in part by DFA upon written notice to Advisor, if Advisor should become the subject of bankruptcy or receivership proceedings, whether voluntary or involuntary, or upon the execution by Advisor of an assignment for the benefit of its creditors. In the event of such termination, Advisor shall be entitled to recover just and equitable compensation for satisfactory work performed under this Contract, but in no case shall said compensation exceed the total Contract price.

**25. Termination for Convenience**

A. Termination. The Agency Head or designee may, when the interests of the State so require, terminate this Contract in whole or in part, for the convenience of the State. The Agency Head or designee shall give written notice of the termination to Advisor specifying the part of the Contract terminated and when termination becomes effective.

B. Advisor's Obligations. Advisor shall incur no further obligations in connection with the terminated work and on the date set in the notice of termination, Advisor will stop work to the extent specified. Advisor shall also terminate outstanding orders and subcontracts as they relate to the terminated work. Advisor shall settle the liabilities and claims arising out of the termination of subcontracts and orders connected with the terminated work. The Agency Head or designee may direct Advisor to assign Advisor's right, title, and interest under terminated orders or subcontracts to the State. Advisor must still complete the work not terminated by the notice of termination and may incur obligations as are necessary to do so.

**26. Termination for Default**

A. Default. If Advisor refuses or fails to perform any of the provisions of this Contract with such diligence as will ensure its completion within the time specified in this

Contract or any extension thereof, or otherwise fails to timely satisfy the Contract provisions, or commits any other substantial breach of this Contract, the Agency Head or designee may notify Advisor in writing of the delay or nonperformance and if not cured in ten (10) days or any longer time specified in writing by the Agency Head or designee, such officer may terminate Advisor's right to proceed with the Contract or such part of the Contract as to which there has been delay or a failure to properly perform. In the event of termination in whole or in part, the Agency Head or designee may procure similar supplies or services in a manner and upon terms deemed appropriate by the Agency Head or designee. Advisor shall continue performance of the Contract to the extent it is not terminated and shall be liable for excess costs incurred in procuring similar goods or services.

- B. Advisor's Duties. Notwithstanding termination of the Contract and subject to any directions from the Chief Procurement Officer, Advisor shall take timely, reasonable, and necessary action to protect and preserve property in the possession of Advisor in which the State has an interest.
- C. Compensation. Payment for completed services delivered and accepted by the State shall be at the Contract price. The State may withhold from amounts due Advisor such sums as the Agency Head or designee deems to be necessary to protect the State against loss because of outstanding liens or claims of former lien holders and to reimburse the State for the excess costs incurred in procuring similar goods and services.
- D. Excuse for Nonperformance or Delayed Performance. Except with respect to defaults of subcontractor, Advisor shall not be in default by reason of any failure in performance of this Contract in accordance with its terms (including any failure by Advisor to make progress in the prosecution of the work hereunder which endangers such performance) if Advisor has notified the Agency Head or designee within 15 days after the cause of the delay and the failure arises out of causes such as: acts of God; acts of the public enemy; acts of the State and any other governmental entity in its sovereign or contractual capacity; fires; floods; epidemics; quarantine restrictions; strikes or other labor disputes; freight embargoes; or unusually severe weather. If the failure to perform is caused by the failure of a subcontractor to perform or to make progress, and if such failure arises out of causes similar to those set forth above, Advisor shall not be deemed to be in default, unless the services to be furnished by the subcontractor were reasonably obtainable from other sources in sufficient time to permit Advisor to meet the Contract requirements. Upon request of Advisor, the Agency Head or designee shall ascertain the facts and extent of such failure, and, if such officer determines that any failure to perform was occasioned by any one or more of the excusable causes, and that, but for the excusable cause, Advisor's progress and performance would have met the terms of the Contract, the delivery schedule shall be revised accordingly, subject to the rights of the State under the clause entitled "Termination for Convenience. (As used in this paragraph of this clause, the term "subcontractor" means a subcontractor at any tier).

- E. Erroneous Termination for Default. If, after notice of termination of Advisor's right to proceed under the provisions of this clause, it is determined for any reason that the Contract was not in default under the provisions of this clause, or that the delay was excusable under the provisions of Paragraph (D) (Excuse for Nonperformance or Delayed Performance) of this clause, the rights and obligations of the parties shall, if the contract contains a clause providing for termination for convenience for the State, be the same as if the notice of termination had been issued pursuant to a termination for convenience.
- F. Additional Rights and Remedies. The rights and remedies provided in this clause are in addition to any other rights and remedies provided by law or under this Contract.

**27. Stop Work Order**

- A. Order to stop work. The Chief Procurement Officer, may by written order to the Advisor at any time, and without notice to any surety, require the Advisor to stop all or any part of the work called for by this Contract. This order shall be for a specified period not exceeding 90 days after the order is delivered to Advisor, unless the parties agree to any further period. Any such order shall be identified specifically as a stop work order issued pursuant to this clause. Upon receipt of such an order, Advisor shall forthwith comply with its terms and take all reasonable steps to minimize the occurrence of costs allocable to work covered by the order during the period of work stoppage. Before the stop work order expires, or within any further period to which the parties shall have agreed, the Chief Procurement Officer shall either (i) cancel the stop work order; or (ii) terminate the work covered by such order as provided in the "Termination for Default" clause or the "Termination for Convenience" clause of this Contract.
- B. Cancellation or Expiration of the Order. If a stop work order issued under this clause is canceled at any time during the period specified in the order, or if the period of the order or any extension thereof expires, Advisor shall have the right to resume work. An appropriate adjustment shall be made in the delivery schedule or Advisor price, or both, and the Contract shall be modified in writing accordingly, if: (i) the stop work order results in an increase in the time required for, or in the Advisor's cost properly allocable to, the performance of any part of this Contract; and, (ii) Advisor asserts a claim for such an adjustment within 30 days after the end of the period of work stoppage; provided that, if the Chief Procurement Officer decides that the facts justify such action, any such claim asserted may be received and acted upon at any time prior to final payment under this Contract.
- C. Termination of Stopped Work. If a stop work order is not canceled and the work covered by such order is terminated for default or convenience, the reasonable costs resulting from the stop work order shall be allowed by adjustment or otherwise.
- D. Adjustment of Price. Any adjustment in Contract price made pursuant to this clause shall be determined in accordance with the Price Adjustment clause of this Contract.

**28. Price Adjustment**

A. Price Adjustment Methods. Any adjustment in contract price pursuant to a clause in this contract shall be made in one or more of the following ways:

- a. by agreement on a fixed price adjustment before commencement of the additional performance;
- b. by unit prices specified in the contract;
- c. by the costs attributable to the event or situation covered by the clause, plus appropriate profit or fee, all as specified in the contract; or,
- d. by a price escalation clause.

B. Submission of Cost or Pricing Data. The Advisor shall provide cost or pricing data for any price adjustments.

**29. Oral Statements**

No oral statement of any person shall modify or otherwise affect the terms, conditions, or specifications stated in this Contract. All modifications to the Contract must be made in writing by the DFA and agreed to by the Advisor.

**30. Ownership of Documents and Work Papers**

The DFA shall own all documents, files, reports, work papers and working documentation, electronic or otherwise, created in connection with the Contract which is the subject of this Contract, except for the Advisor's internal administrative and quality assurance files and internal project correspondence. The Advisor shall deliver such documents and work papers to the DFA upon termination or completion of the Contract. The foregoing notwithstanding, the Advisor shall be entitled to retain a set of such work papers for its files. The Advisor shall be entitled to use such work papers only after receiving written permission from DFA and subject to any copyright protections.

**31. Trade Secrets, Commercial and Financial Information**

It is expressly understood that Mississippi law requires that the provisions of this Contract which contain the commodities purchased or the personal or professional services provided, the price to be paid, and the term of the Contract shall not be deemed to be a trade secret or confidential commercial or financial information and shall be available for examination, copying, or reproduction.

**32. Third-Party Action Notification**

The Advisor shall give the DFA prompt notice in writing of any action or suit filed, and prompt notice of any claim made against the Advisor by any entity that may result in litigation related in any way to this Contract.

**33. Indemnification**

To the fullest extent allowed by law, the Advisor shall indemnify, defend, save and hold harmless, protect, and exonerate the Agency, its Commissioners, Board Members, officers, employees, agents, and representatives, and the State of Mississippi from and against all

claims, demands, liabilities, suits, actions, damages, losses, and costs of every kind and nature whatsoever including, without limitation, court costs, investigative fees and expenses, and attorneys' fees, arising out of or caused by the Advisor and/or its partners, principals, agents, employees and/or subcontractors in the performance of or failure to perform this contract. In the State's sole discretion upon approval of the Mississippi Attorney General, Advisor may be allowed to control the defense of any such claim, suit, etc. In the event Advisor defends said claim, suit, etc., the Advisor shall use legal counsel acceptable to the Office of the Mississippi Attorney General. Advisor shall be solely responsible for all costs and/or expenses associated with such defense, and the State shall be entitled to participate in said defense. Advisor shall not settle any claim, suit, etc. without the concurrence of the Office of the Mississippi Attorney General, which shall not be unreasonably withheld.

**34. Change in Scope of Work**

The DFA may order changes in the work consisting of additions, deletions, or other revisions within the general scope of the Contract. No claims may be made by Advisor that the scope of the project or of Advisor's services has been changed, requiring changes to the amount of compensation to the Advisor or other adjustments to the Contract, unless such changes or adjustments have been made by written amendment to the Contract signed by the DFA and the Advisor. If the Advisor believes that any particular work is not within the scope of the project, is a material change, or will otherwise require more compensation to the Advisor, the Advisor must immediately notify the DFA in writing of this belief. If the DFA believes that the particular work is within the scope of the Contract as written, the Advisor will be ordered to and shall continue with the work as changed and at the cost stated for the work within the Contract.

**35. Disputes**

Any dispute concerning the Contract which is not disposed of by agreement shall be decided by the Executive Director of DFA who shall reduce such decision to writing and mail or otherwise furnish a copy thereof to the Advisor. The decision of the Executive Director shall be final and conclusive. Nothing in this paragraph shall be construed to relieve the Advisor of full and diligent performance of the Contract.

**36. Attorney's Fees and Expenses**

Subject to other terms and conditions of this agreement, in the event Advisor defaults in any obligations under this agreement, Advisor shall pay to the State all costs and expenses (including, without limitation, investigative fees, court costs, and attorney's fees) incurred by the State in enforcing this agreement or otherwise reasonably related thereto. Advisor agrees that under no circumstances shall the customer be obligated to pay any attorney's fees or costs of legal action to Advisor.

**37. Failure to Enforce**

Failure by the DFA at any time to enforce the provisions of the Contract shall not be construed as a waiver of any such provisions. Such failure to enforce shall not affect the

validity of the Contract or any part thereof or the right of the DFA to enforce any provision at any time in accordance with its terms.

**38. Record Retention and Access to Records**

Provided Advisor is given reasonable advance written notice and such inspection is made during normal business hours of Advisor, the State or any duly authorized representatives shall have unimpeded, prompt access to any of Advisor's books, documents, papers, and/or records which are maintained or produced as a result of the project for the purpose of making audits, examinations, excerpts, and transcriptions. All records related to this agreement shall be retained by Advisor for three (3) years after final payment is made under this agreement and all pending matters are closed; however, if any audit, litigation or other action arising out of or related in any way to this project is commenced before the end of the three (3) year period, the records shall be retained for one (1) year after all issues arising out of the action are finally resolved or until the end of the three (3) year period, whichever is later.

**39. Right to Audit**

Advisor shall maintain such financial records and other records as may be prescribed by DFA or by applicable federal and state laws, rules, and regulations. Advisor shall retain these records for a period of three years after final payment, or until they are audited by DFA, whichever event occurs first. These records shall be made available for inspection during regular business hours and with reasonable advance notice during the term of the Contract and the subsequent three-year period for examination, transcription, and audit by the Mississippi State Auditor's Office, its designees, or other authorized bodies.

**40. Right to Inspect Facility**

The State may, at reasonable times, inspect the place of business of an Advisor or any subcontractor which is related to the performance of any contract awarded by the State.

**41. Severability**

If any part of this Contract is declared to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision, and to this end the provisions hereof are severable. In such event, the parties shall amend the Contract as necessary to reflect the original intent of the parties and to bring any invalid or unenforceable provisions in compliance with applicable law.

**42. Licenses and Registrations**

The Advisor must be registered with both the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and provide documentation as proof to the Municipal Series Licensed Registrations and/or any applicable certificates.

**43. Insurance**

Advisor represents that it will maintain workers' compensation insurance which shall inure to the benefit of all Advisor's personnel provided hereunder, comprehensive general

liability or professional liability insurance, with minimum limits of \$1,000,000.00 per occurrence and fidelity bond insurance with minimum limits of \$1,000,000.00. All general liability, professional liability and fidelity bond insurance will provide coverage to the DFA as an additional insured. The DFA reserves the right to request from carriers, certificates of insurance regarding the required coverage. Insurance carriers must be licensed or hold a Certificate of Authority from the Mississippi Department of Insurance.

**44. Notices**

All notices required or permitted to be given under this Contract must be in writing and personally delivered or sent by certified United States mail postage prepaid, return receipt requested, to the party to whom the notice should be given at the address set forth in this section. Notice shall be deemed given when actually received or when refused. The parties agree to promptly notify each other in writing of any change of address.

If to DFA:

Attention: Saranne Smith  
Department of Finance and Administration  
Office of Procurement and Contracts  
501 North West Street  
Suite 1301-A Woolfolk Building  
Jackson, Mississippi 39205-0267

If to the Advisor:

Attention: Vickie Hall  
Vice President  
Hilltop Securities, Inc.  
717 North Harwood Street, Suite 3400  
Dallas, Texas 75201

**45. Priority**

The Contract consists of this agreement including **Exhibit A - Pricing**, the response bid by the Advisor dated September 3, 2021 (hereinafter “Proposal” and attached as **Exhibit B**) and the Request for Proposals for Financial Advisory Services dated August 24, 2021 (hereinafter “RFP” and attached as **Exhibit C**). Any ambiguities, conflicts or questions of interpretation of this Contract shall be resolved by first, reference to this agreement and, if still unresolved, by reference to the RFP and, if still unresolved, by reference to the Proposal. Omission of any term or obligation from this agreement or attached Exhibits A, B and C shall not be deemed an omission from this Contract if such term or obligation is provided for elsewhere in this Contract.

In witness whereof, the parties hereto have caused this Contract to be executed by their duly authorized representatives as follows:

Hilltop Securities, Inc.

Department of Finance and Administration

By: Vickie Hall

By: Liz Welch

Name: Vickie Hall

Name: Liz Welch

Title: Vice President

Title: Exec. Dir., DFA

## EXHIBIT A

### PRICING

<b>Fee Schedule for Master Lease Programs Financial Advisor Services</b>							
<p>Proposers are asked to indicate the cost per \$1000 issued. As per the specifications, all costs not otherwise indicated should be included in the cost per \$1000 issued and will be included in the proceeds and will be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.</p>							
	Year 1	Year 2	Year 3	3 Year Total	Year 4*	Year 5*	5* year Total
<b>K-12 School Districts and Community and Jr College Districts</b>	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000
<b>State Agencies</b>	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000	\$10/1000

*\*Indicates possible renewal year.*

*\*\*Indicated below are any costs which the DFA or the Districts and State Agencies will incur which are not included in the cost per \$1,000 issued. Include a complete description of the cost and the estimated cost. Any such costs shall also be included in the proceeds and be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.*

**\*\*No costs were indicated; however, other costs of issuance, including, but not limited to, rating fees (approximately \$10,000-\$15,000), trustee fees and trustee reserve fees (approximately \$5,000), special tax counsel fees (approximately \$4,500), special filing fees, such as aircraft filings, costs of distributing/printing offering documents through i-Deal, and arbitrage calculations (if applicable) will be included in each Series and will be passed through at cost.**

**EXHIBIT B**

**THE ADVISOR'S RESPONSE TO THE DEPARTMENT OF FINANCE AND  
ADMINISTRATION'S REQUEST FOR PROPOSALS FOR FINANCIAL ADVISORY  
SERVICES DATED SEPTEMBER 3, 2021**



**STATE OF MISSISSIPPI  
MS DEPT FINANCE & ADMINISTRATION  
Oversight Appv Reqst**

**RESPONSES REQUIRED BY:**

Submission Date : 09/03/2021 :  
Submission Time 14:00:00 CST

**RESPONSES OPENED ON:**

Opening Date : 00/00/0000  
Opening Time : 14:00:00 CST

**VENDOR NO:**

**VENDOR NAME & ADDRESS:**

(To be completed by Vendor)

Hilltop Securities Inc.  
717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201

**SUBMIT NON-ELECTRONIC RESPONSE:**

TO :  
501 NORTH WEST STREET  
WOOLFOLK BUILDING SUITE 1301A  
JACKSON MS 39201  
US

**DELIVERY POINT**

RFx number : 3180001451  
Smart number :  
Buyer : Brittney Thompson  
Buyer Phone :  
Email :  
BRITTNEY.THOMPSON@DFA.MS.GOV

**NOTICE TO VENDOR:**

The Mississippi Department of Finance and Administration (DFA), Office of Procurement and Contracts, has issued a Request for Proposals (RFP) for the purpose of securing a qualified vendor to provide Financial Advisor Services for the Master Lease Purchase Programs for (1) K-12 School Districts and Community and Junior College Districts and (2) State Agencies. Detailed information may be obtained at <http://www.dfa.ms.gov/dfa-offices/procurement-contracts/> under the "Bid/RFP Notice" section or by contacting Saranne Smith at (601) 359-5078 or via email at [procurement@dfa.ms.gov](mailto:procurement@dfa.ms.gov). Proposals must be submitted in writing no later than 2:00 PM CST, September 3, 2021. The DFA reserves the right to accept or reject any or all proposals, cancel the RFP, or issue another RFP.

The Mississippi Department of Finance and Administration (DFA), Office of Procurement and Contracts, has issued a Request for Proposals (RFP) for the purpose of securing a qualified vendor to provide Financial Advisor Services for the Master Lease Purchase Programs for (1) K-12 School Districts and Community and Junior College Districts and (2) State Agencies. Detailed information may be obtained at <http://www.dfa.ms.gov/dfa-offices/procurement-contracts/> under the "Bid/RFP Notice" section or by contacting Saranne Smith at (601) 359-5078 or via email at [procurement@dfa.ms.gov](mailto:procurement@dfa.ms.gov). Proposals must be submitted in writing no later than 2:00 PM CST, September 3, 2021. The DFA reserves the right to accept or reject any or all proposals, cancel the RFP, or issue another RFP.

Vendor Telephone Number	Title	Date
214.953.8774	Vice President	September 3, 2021
(Typed or printed) Name of Bidder	Signature of Authorized Bidder	
Vickie Hall		

Proposal to Provide Financial Advisory Services RFX #3120002290  
Master Lease Purchase Programs

# State of Mississippi - Master Lease Programs

September 3, 2021

State of Mississippi - Master Lease Programs



**CONTACT:**

**Vickie Hall, Vice President**

[vickie.hall@hilltopsecurities.com](mailto:vickie.hall@hilltopsecurities.com)

717 N. Harwood Street, Suite 3400, Dallas, Texas 75201

Phone: 214.953.8874

September 3, 2021  
Proposal to Provide  
Financial Advisory Services



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**Appendix A - Municipal Advisor Disclosure Statement**

***Separately-Sealed Exhibit 1 - Complete Transcript of Documents for Series 2020A***



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## Tab 1 - Statement of Proposals

Hilltop Securities Inc. ("HilltopSecurities") has included its completed and signed Statement of Proposals Form in this **Tab 1**.

## Appendix A – Statement of Qualifications Cover Sheet

Firm Name: Hilltop Securities Inc.

Proposals are to be submitted as directed in *Section 1.2.1, Proposal Submission Period*, of this RFP, on or before Friday, September 3, 2021 by 2:00 PM CST.

<b>Firm Representative</b>	Vickie Hall
<b>Firm Representative Title</b>	Vice President
<b>Firm Representative Mailing Address</b>	717 N. Harwood Suite 3400 <b>NOTE NEW MAILING ADDRESS</b>
<b>Firm Representative Mailing City, State, Zip</b>	Dallas, Texas 75201 <b>NOTE NEW MAILING ADDRESS</b>
<b>Firm Representative Telephone</b>	214.953.8874
<b>Firm Representative E-Mail Address</b>	vickie.hall@hilltopsecurities.com

*Please identify the Office/Branch which will provide services for DFA if different from above:*

<b>Office Contact Person</b>	info same as above
<b>Office Contact Person Telephone Number</b>	
<b>Office Contact Person Email Address</b>	
<b>Office Contact Person Physical Address</b>	
<b>Office Contact Person City, State, Zip</b>	
<b>Office Contact Person Mailing Address</b>	
<b>Office Contact Person City, State, Zip</b>	

Are you currently registered as a Supplier in MAGIC? X YES \_\_\_\_ NO

If known, what is your supplier number? VND202763101

Are you currently registered with PayMode? \_\_\_\_ YES X NO

By signing below, the firm representative certifies that he/she has authority to bind the firm, and further acknowledges and certifies on behalf of the firm:

1. That the Offeror will perform the services required at the prices stated in their proposal;
2. That the pricing submitted will remain firm for the contract term; and,
3. That, to the best of its knowledge and belief, the cost or pricing data submitted is accurate, complete, and current as of the submission date.
4. That the Offeror has submitted copies of the required insurance certificates to meet the Minimum Qualifications as stated in **Section 3, Minimum Qualifications**, and should the Offeror be awarded the contract, will add the State of Mississippi as an additional insured;
5. That the firm is licensed or authorized to provide the proposed services in the State of Mississippi.
6. The State of Mississippi utilizes the Mississippi Accountability System for Government Information and Collaboration (MAGIC) system to manage contracts. Additionally, electronic payments are issued through an electronic portal called PayMode. In order to do business with the State of Mississippi, all Suppliers must be registered with both systems. By submitting a proposal, the Offeror certifies that it is registered with both systems or if not already registered, that it will do so within seven (7) business days of being notified by DFA Office of Procurement and Contracts that it has been awarded a contract.

Signature:   
Vickie Hall

Date: September 3, 2021

717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201  
214.953.8874 -- Direct

**Vickie Hall**  
Vice President  
vickie.hall@hilltopsecurities.com

## Tab 2 - Procurement Methodology

September 3, 2021

Department of Finance and Administration  
Office of Procurement and Contracts  
501 North West Street  
Suite 1301-A Woolfolk Building  
Jackson, Mississippi 39201

Dear Selection Committee:

**As required in RFx #3120002290, HilltopSecurities acknowledges that it has read and understands the provisions of Section 2, Procurement Methodology.**

Hilltop Securities Inc. ("HilltopSecurities") greatly appreciates the opportunity to present the capabilities, resources, and experience of our firm to serve as financial advisor for the State's Master Lease Purchase Program for State Agencies and the State's Master Lease Purchase Program for School Districts and Community and Junior College Districts (collectively, the "Program"). We believe that we are uniquely qualified to address the needs of the Program based on our decades-long history in public finance, the breadth and depth of our available resources, and our proud tradition of excellence in service.

HilltopSecurities currently serves as the financial advisor to the State's existing master lease programs for (A) state agencies, (B) school districts and community college districts and (C) state universities. FirstSouthwest Leasing Company, a HilltopSecurities affiliate, serves as lessor for the three programs. Through association with a prior firm, one of the employees HilltopSecurities has been involved with the State Agency Program since its inception in the 1990s and with the District Program since its beginnings in 2001. The solid on-going relationships that we have developed over the years with Program participants facilitate communication and freely exchanged ideas and opinions.

**Extensive Financial Advisory Experience.** For the three-year period ending July 31, 2021, Ipreo MuniAnalytics ranked us as the number-two financial advisor in the nation based on number of issues with a total of 2,351 transactions representing in excess of \$103.23 par amount. As the financial advisor for the State's bond issues, HilltopSecurities has assisted the State with 23 bond issues since 2010.

**Broker-Dealer Advantage - Extensive Market Knowledge.** HilltopSecurities is a registered broker-dealer with the Financial Industry Regulatory Authority, with its activities regulated by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. We believe maintaining a trading and underwriting desk is essential to properly advise clients on market conditions. Our underwriting desk works with our financial advisors from the preliminary structuring of a transaction, updating scales and coupon structures to reflect market dynamics and providing real-time market information, through the final pricing. These capabilities provide a significant advantage to the State and further differentiates HilltopSecurities from other financial advisor firms that do not have actual market involvement and capabilities. Our active underwriting desk will ensure that the State's financing options are evaluated based on current market conditions; its securities priced and sold at market levels; and its objectives for the distribution of its securities

are achieved to the fullest extent possible. As a broker/dealer, the firm maintains \$445.75 million in equity capital as of June 30, 2021.

**Team Concept.** We implement the “team concept” to provide the best possible service to our clients. Under this concept, a variety of professionals with specialized expertise work together to meet a client’s needs. Applying such philosophy to this engagement, HilltopSecurities assembled a team of professionals capable of meeting all the needs of the State. We assign sufficient senior staff to each engagement to ensure senior personnel are always available to assist our clients in achieving their financial objectives on a timely basis.

We very much appreciate the opportunity to present our credentials to provide financial advisory services to the State. We stand ready to assist the State if awarded this engagement and commit to assisting you in achieving the State’s Master Lease Program objectives. Should you have any questions or desire additional information, please do not hesitate to contact me at (214) 953-8874.

Sincerely yours,



Vickie Hall  
Vice President



### Tab 3 - Minimum Qualifications Confirmation

**1. Offerors must document a minimum of three (3) years of successful previous experience of being involved with the MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies or programs of similar scope and service as stated in this RFP.**

As mentioned in our cover letter, Hilltop Securities Inc. ("HilltopSecurities") appreciates the opportunity to present the capabilities, resources, and experience of our firm to continue serving as financial advisor/lessor for the State's Master Lease Purchase Program for State Agencies and the State's Master Lease Purchase Program for School Districts and Community and Junior College Districts (collectively, the "Program"). We believe that we are uniquely qualified to address the needs of the Program based on our decades-long history in public finance, the breadth and depth of our available resources, and our proud tradition of excellence in service.

HilltopSecurities currently serves as the financial advisor to the State's existing master lease programs for (A) state agencies, (B) school districts and community college districts and (C) state universities. FirstSouthwest Leasing Company, a HilltopSecurities affiliate, serves as lessor for the three programs. Through association with a prior firm, Vickie Hall has been involved with the State Agency Program since its inception in the 1990s and with the District Program since its beginnings in 2002. The solid on-going relationships that we have developed over the years with Program participants facilitate communication and freely exchanged ideas and opinions.

Since January 2018, the firm has participated in the following Series for the Programs:

- **Series 2018A Master Lease Program for State Agencies and School Districts, dated 6/29/2018**
  - \$3,415,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Revenue, Department of Agriculture & Commerce, Cleveland Municipal School District, North Panola School District
  - Aggregate Equipment Amount - \$3,350,547
- **Series 2018B Master Lease Program for State Agencies and School Districts, dated 10/18/2018**
  - \$3,685,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Transportation, Alcorn School District
  - Aggregate Equipment Amount - \$3,624,250
- **Series 2019A Master Lease Program for State Agencies and School Districts, dated 7/18/2019**
  - \$4,105,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Department of Corrections, Board of Animal Health, Cleveland School District, Greene County School District
  - Aggregate Equipment Amount - \$4,037,213.04
- **Series 2020A Master Lease Program for State Agencies and School Districts, dated 3/5/2020**
  - \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Ellisville State School, Copiah-Lincoln Community College District
  - Aggregate Equipment Amount - \$1,277,532
- **Series 2020B Master Lease Program for State Agencies, dated 12/17/2020**
  - \$1,945,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - Ellisville State School, Boswell Regional Center, Board of Animal Health
  - Aggregate Equipment Amount - \$1,906,712

#### Mississippi Institutions of Higher Learning

HilltopSecurities also has served as the financial advisor/lessor for the Mississippi Institutions of Higher Learning Master Lease Program for State Universities. MIHL created its Program under separate statutory



authorization and the MIHL Program is substantially similar to the State's Programs. The last publicly-offered rated series of the MIHL Program was Series 2011A; subsequently the various universities joined in the State Agency Program as Participating Users. In July of 2020, the MIHL Board revitalized its separate program and entered into a financial advisory contract with HilltopSecurities for the issuance of the Series 2020 Certificates of Participation.

- **Tax-Exempt Series 2020A Master Lease Program for State Universities, dated 7/10/2020**
  - \$5,670,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - \$5,591,349
- **Taxable Series 2020B Master Lease Program for State Universities, dated 7/10/2020**
  - \$1,735,000 Privately-Placed Lease Revenue Certificates of Participation (unrated)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - \$1,700,000

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**2. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP, see Section 6 References.**

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HilltopSecurities has provided references in **Section 6, References**.

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**3. Offeror represents that it will maintain workers' compensation insurance which shall inure to the benefit of all Offeror's personnel provided hereunder, comprehensive general liability or professional liability insurance, with minimum limits of \$1,000,000.00 per occurrence and fidelity bond insurance with minimum limits of \$1,000,000.00. All general liability, professional liability and fidelity bond insurance will provide coverage to the DFA as an additional insured. The DFA reserves the right to request from carriers, certificates of insurance regarding the required coverage. Insurance carriers must be licensed or hold a Certificate of Authority from the Mississippi Department of Insurance.**

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HilltopSecurities maintains professional liability coverage for an aggregate limit of \$15,000,000 (\$5 million first tier, \$5 million second tier, and \$5 million third tier), covering claims made in connection with its professional services. Our level of liability insurance is an amount that we consider sufficient to hold harmless, indemnify and defend DFA for losses, costs, and expenses arising from claims resulting from the alleged negligence of HilltopSecurities, our officers, employees, and subcontractors. Covered professional services include the purchase or sale of securities as approved by HilltopSecurities. The policy carries a \$1 million deductible. The current policy expires in April 2022. HilltopSecurities at a minimum intends to maintain such coverage during the term of service listed in DFA's RFP.

In addition to our professional liability insurance, the combined single limit of our firm's automobile liability insurance is \$1 million, and HilltopSecurities maintains workers' compensation and employer's liability insurance with a limit of \$1 million. We also maintain commercial general liability insurance with an aggregate limit of \$2 million. We also carry umbrella insurance on the above policies. The firm's current general liability policy is effective through April 2022.

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**4. The Offeror shall be in compliance with Mississippi Code Annotated § 79-4-15.01 regarding authorization to transact business in Mississippi.**

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HilltopSecurities (Business ID 1078896) is registered and in good standing with the Mississippi Secretary of State.

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**5. The Offeror must be registered with both the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and provide documentation as proof to the Municipal Series Licensed Registrations and/or any applicable certificates.**

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HilltopSecurities is registered with both the MSRB and SEC and in full compliance with the requirements associated with such registration (MSRB ID: A1290; Dealer SEC ID: 8-45123; Municipal Advisor SEC ID: 867-00632, CRD Number: 6220). We have included a copy of the firm's MSRB Form A12 in this **Tab 3**.

## MSRB Registration - Form A-12: Preview

## FIRM/SOLE PROPRIETORSHIP IDENTIFIERS

MSRB ID: A1290

Firm Name: Hilltop Securities Inc.

Dealer SEC ID: 8-45123

Municipal Advisor SEC ID: 867-00632

CRD Number: 6220

Legal Entity Identifier: 549300IXU82PMU6XZT45

Written notice to FINRA or Bank Regulator (Fed, OCC or FDIC) as applicable

Document: HTS DE Certified Amended and Restated COI 10.5.2015.pdf

## BUSINESS INFORMATION

Firm Address: 1201 Elm Street, Suite #3500

City: Dallas State: TX Zip: 75270

Firm Website: hilltopsecurities.com

## TYPE OF ORGANIZATION

Organization Type: Corporation City: Dallas State: TX

## BUSINESS ACTIVITIES

## Municipal Advisor

- ☐ Issuance Advice
- ☐ Guaranteed Investment Contracts Advice
- ☐ Investment Advice - Proceeds of Municipal Securities
- ☐ Investment Advice - Funds of Municipal Entity
- ☐ Municipal Derivatives Advice
- ☐ Solicitation of Business - Investment Advisory
- ☐ Municipal Escrow Investment Advice
- ☐ Municipal Escrow Investment Brokerage
- ☐ Solicitation of Business - Other than Investment Advisory
- ☐ Municipal Advisor/Underwriter Selection Advice
- ☐ Other (specify):
- GENERAL CONSULT NOT RELATED TO SECURITIES OFFERING

## Broker/Dealer - MFS

- ☐ 529 Plan Sales
- ☐ Local Government Investment Pool Distributor/Sales

## Broker/Dealer - Sales/Trading

- ☐ Retail Sales
- ☐ Institutional Sales
- ☐ Trading â€” Proprietary
- ☐ Trading â€” Inter-Dealer
- ☐ Online Brokerage

## Broker/Dealer - Other

- ☐ Underwriting
- ☐ Clear and settle transactions as an NSCC participant
- ☐ Remarket VRDOs

## DESIGNATED CONTACTS

Master Account Administrator		
Name	Phone	Email
RENEE CHAVERA	(214) 859-9324	renee.chavera@hilltopsecurities.com
Primary Regulatory Contact		
Name	Phone	Email
Mike Hilltop Securities Inc. Cogliano	(214) 859-6687	mike.cogliano@hilltopsecurities.com
Billing Contact		
Name	Phone	Email
Serana Robertson	(214) 859-9311	AccountsPayable@hilltopsecurities.com
Compliance Contact		
Name	Phone	Email
RAY HUIE	(214) 859-1721	ray.huie@hilltopsecurities.com
Primary Data Quality Contact		
Name	Phone	Email
ROSEANNA M JIMENEZ	(214) 859-9370	rose.jimenez@hilltopsecurities.com
Optional Regulatory Contact		
Name	Phone	Email
Brett Weaver	(214) 953-8883	brett.weaver@hilltopsecurities.com
Optional Data Quality Contact		
Name	Phone	Email
Michael D McAllister	(214) 859-6713	Michael.Mcallister@hilltopsecurities.com
Optional Technical Contact		
Name	Phone	Email
Michael D McAllister	(214) 859-6713	Michael.Mcallister@hilltopsecurities.com

## TRADE REPORTING IDENTIFIERS

Executing Broker Symbol (EBS) assigned by NASDAQ

EBS	Broker's Broker	Error Feedback Email
FSWC	No	tradereporting@hilltopsecurities.com
SWST	No	MSRBReportingAlerts@swst.com

Participant ID assigned by NSCC

Participant	Error Feedback Email
0279	Tradereporting@hilltopsecurities.com

## SUBMISSION AND FEEDBACK

Identify the manner in which transactions will be reported

- ☒ Report own trades using message-based trade portal operated by National Securities Clearing Corporation (NSCC) and RTTM Web
- ☐ Trades will be reported by another dealer acting as agent
- ☐ RTRS Web only

Method of receiving error feedback

- ☐ Email - Review trade status emails sent to the email address(es) identified in the Trade Reporting Identifiers section
- ☐ Messaging - Process MT509 messages containing trade status information (Note: DTCC participants only)
- ☒ RTRS Web - Review trade status information using RTRS Web



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## Tab 4 - Scope of Services Confirmation

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1. **Basic Program.** Advisor shall be expected to assist the DFA using a Competitive Bid Process, whether public or private placement, for obtaining tax-exempt funding for the FA's MLPP, including the preparation of basic financing documents, offering documents, and supporting documentation, in a manner which will result in financing offerings which are acceptable to financial markets and institutions and must not have a negative impact upon any other aspect of the State's financing opportunities. All documents and forms used shall be documents approved and adopted August 6, 2008 by the State Bond Commission.

---

*Confirmed.*

---

2. **Process.** Advisor shall be expected to develop and administer the entire process from needs recognition to final payment with all applicable documentation. Advisor will also be expected to provide the DFA with checklists of occurrences which the DFA should consider throughout the process. It is understood that the process described herein is representative of a process of funding which utilizes Certificates of Participation (COPs). Offerors may submit proposals for other forms of financing and/or COP financing procedures in which some or all of the following requirements may not be applicable. Offerors are expected to fully describe in their proposals, which, if any, of the following procedures will not be complied with, and what procedures will be substituted to achieve the apparent intent of the requirement. It should be clear from these requirements that the DFA does not intend to perform many functions inhouse but rather that Advisor will be expected to perform a vast majority of the required activities.

---

*Confirmed.*

---

3. The awarded Advisor shall periodically survey K-12 School Districts, Community and Junior College Districts and State Agencies to determine immediate and projected equipment needs. The equipment needs are required to be submitted to the DFA, OPTFM and Contractor using the approved Equipment Lease/Purchase Planning Form on an as needed basis, consolidate the equipment lease-purchase requirements of one or more Districts and the equipment lease purchase requirements of one or more State Agencies. This shall include, but not be limited to, developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs. All documents developed by Advisor related to the entire MLPPs shall be provided in a Word format, and transmitted electronically, to enable the Office to use the documents on all future issues of this and future Programs.

---

*Confirmed.*

---

4. Advisor shall manage and coordinate the pre-financing process with the participating Districts and State Agencies.

---

*Confirmed.*

---

5. Advisor shall educate potential participants (Districts, State Agencies, vendors, etc.) to ensure the potential participants have a sound working knowledge of the program, its structure, and applicable accounting and purchasing procedures. It should be noted that this often requires multiple one-on-one meetings and phone conversations with various individuals throughout the Districts and State Agencies. This educational plan includes, but is not limited to:

a. Assisting and educating the Districts and State Agencies in order that the Districts and State Agencies gain an understanding of the Programs' procurement and acquisition process.

---

*Confirmed.*

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b. Having staff available for statewide travel to meet with Districts and State Agencies and to make presentations to department personnel, as well as attend statewide conferences of purchasing officials.

---

*Confirmed.*

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6. Advisor shall consolidate the information received from the Districts and State Agencies. Advisor will analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.

---

*Confirmed.*



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7. If the acquisition involves software, Advisor shall examine the software license to determine, among other things, if a perpetual license is created so that a security interest in the software can be obtained.

---

*Confirmed.*

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8. Upon District and State Agency requests, Advisor shall create preliminary amortization schedules, usually necessary for budgetary purposes. This schedule is often used by the Districts and State Agencies to determine the economic feasibility of acquiring the equipment through financing.

---

*Confirmed.*

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9. Advisor shall create a spreadsheet with breakdowns by District and State Agency of equipment description, equipment cost, anticipated delivery, and acceptance dates.

---

*Confirmed.*

---

10. Advisor shall contact the Department of Finance and Administration, Office of Purchasing and Travel with results of District and State Agency communications and make recommendations as to the timing of the next issue or, if necessary, obtain interim financing for specific pieces of equipment. If interim financing is requested and approved by the Office, Advisor will obtain an interim rate and prepare and distribute interim financing documentation.

---

*Confirmed.*

---

11. If the entity is a State Agency, the Department of Finance and Administration, Office of Purchasing and Travel and the Public Procurement Review Board will approve or disapprove the list of equipment as indicated on the spreadsheet, Advisor shall gather information as to the essential governmental use of the equipment, as well as the State Agency's justification for the acquisition. This involves communication with each State Agency, as well as gathering information directly from potential vendors or from potential vendor brochures and pamphlets (NOTE: any acquisitions proposed in the Program must follow all applicable procurement rules and regulations, including competitive solicitations where applicable, once the acquisition schedule is approved by the Public Procurement Review Board). Additionally, if the State Agency is establishing a Program that is designed to evolve over a period of time and will require equipment acquisitions in stages, Advisor will acquire a full understanding of the Program from its inception to full implementation to assist the State Agency in accurately assessing its equipment purchases. After the information has been received, Advisor will draft a description of each item of equipment being acquired to be included in offering materials and will provide a copy of the list to each State Agency to allow a review of the accuracy of the description prior to inclusion in the offering materials.

---

*Confirmed.*

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12. If the entity is a School District, or Community or Junior College, the entities are required to provide an approved/adopted Authorizing Resolution signed by the proper authorized agent and a completed certificate as to the authenticity of the Resolution. This action is necessary to authorize the entity to participate in the program. In addition to the authorizing Resolution, the previously referenced equipment spreadsheet is then reviewed by the Contractor and the Department of Finance and Administration, Office of Purchasing and Travel and will approve or disapprove the list of equipment as indicated on the spreadsheet.

---

*Confirmed.*

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13. If equipment involves telecommunications or computer equipment, Advisor shall obtain necessary approval from the Mississippi Department of Information Technology Services in addition to the Office of Purchasing and Travel.

---

*Confirmed.*

---

14. Advisor shall prepare an initial sizing of the Program to determine time of financing.

---

*Confirmed.*

---

15. Advisor shall determine market conditions by analyzing interest rates and reviewing comparable sales analyses and other market activity to optimize pricing, check forward municipal calendar, or private investor banks and contact the Mississippi Department of Finance and Administration Office of Purchasing and Travel, before making a recommendation as to timing of the deal.

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*Confirmed.*

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**16. Advisor shall analyze the structure of the financing from the perspective of state law and federal tax and securities laws and determine potential financing participants.**

---

*Confirmed.*

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**17. Advisor shall prepare basic financing documents, closing certificates, suggested opinions to be rendered at closing, offering materials, and documents required to assign title to certain equipment to the Department of Information Technology Services, if applicable.**

---

*Confirmed.*

---

**18. Advisor shall distribute financing documents to all applicable parties at no additional cost.**

---

*Confirmed.*

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**19. If applicable, Advisor shall develop a rating strategy and presentation, prepare rating application, and submit to the rating agency after approval from the Department of Finance and Administration. Advisor shall also be responsible for obtaining a rating release from the rating agency, and, if applicable, credit enhancement for the Program.**

---

*Confirmed.*

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**20. Advisor shall solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.**

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*Confirmed.*

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**21. Advisor shall revise documents pursuant to communications with parties to the transaction and distribute second drafts, if necessary, to all parties at no additional cost.**

---

*Confirmed.*

---

**22. Advisor shall arrange for a bid process in order to obtain a guaranteed investment contract, if applicable. Advisor may not submit a bid on its behalf.**

---

*Confirmed.*

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**23. If financing through a public competitive bid process, Advisor shall prepare and arrange for publication notices of sale in the appropriate publications. Advisor shall register the sale through SureBid or a similar service for the purpose of receipt of bids deposits through SureBid. Advisor shall coordinate with Bidcomp/PARITY to arrange for receipt of on-line bids. Advisor either will attend the bid opening or will coordinate with the DFA by conference call and will analyze the bids and make a recommendation as to the low bidder.**

---

*Confirmed.*

---

**24. Advisor shall prepare the Preliminary Offering Circular and the Final Offering Circular. Advisor will arrange for electronic distribution of the Preliminary Offering Circular through the services of I-deal or a similar service. Advisor shall prepare and will arrange for the printing and distribution of the Final Offering Circular to the winning underwriter. Advisor shall prepare the Certificates of Participation, proof of accuracy and forward to the Trustee for authentication and delivery to The Depository Trust Company (DTC).**

---

*Confirmed.*

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**25. If financing through a privately-placed competitive bid process, the Contractor shall prepare "The Term Sheet and proposal to Purchase State of Mississippi Master Lease Revenue COPs" and with the approval of the State, shall solicit bids from qualified purchasers who are either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended) or a qualified institutional buyer as defined under Rule 144A of the Securities Act of 1933, as amended, to purchase the COPs. (NOTE: Fees and expenses incurred by the Purchaser and owed to Purchaser's Counsel, if any, will be borne by the Purchaser and not by the State).**

---

*Confirmed.*

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**26. Advisor shall prepare amortization schedules by District and State Agency and, if requested, by group or piece of equipment and will communicate with each District and State Agency to verify final equipment amounts and lease terms and anticipated delivery schedules.**

---

*Confirmed.*

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**27. Advisor shall finalize financing and closing documents, attach amortization schedules, prepare multiple execution copies, coordinate receipt of executed opinions, and hold in escrow pending closing.**

---

*Confirmed.*

---

**28. If an investment contract is obtained, Advisor shall coordinate receipt of accountant's verification report and opinion verifying cash flows under the lease, together with interest earnings derived from the investment contract, will be adequate to pay debt service on the Financing Agreement.**

---

*Confirmed.*

---

**29. Advisor shall coordinate with the Department of Finance and Administration, Office of Purchasing and Travel to arrange pre-closing meetings with each District and State Agency, if necessary, travel to and attend pre-closing, obtain signatures of authorized representatives of each District and State Agency, as well as any other necessary signatures.**

---

*Confirmed.*

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**30. Advisor shall prepare and file applications for the receipt of CUSIP numbers in the event of a competitive sale and will file for eligibility under the DTC, coordinate closing with the Trustee, including preparation of the closing statement detailing flow of funds from investors to Trustee, and from Trustee to trust accounts.**

---

*Confirmed.*

---

**31. Advisor shall provide investment instructions for escrowed funds in the Acquisition Account pursuant to the Trust Indenture.**

---

*Confirmed.*

---

**32. Advisor shall confirm wiring instructions and confirm receipt of funds.**

---

*Confirmed.*

---

**33. Advisor shall provide Trustee with executed counterparts of financing documents, opinions, certificates as to tax and no-arbitrage, and IRS Form 8038-G.**

---

*Confirmed.*

---

**34. Advisor shall confirm with DTC that the documents have been received.**

---

*Confirmed.*

---

**35. Advisor shall confirm settlement and closing with Trustee.**

---

*Confirmed.*

---

**36. Advisor shall prepare and file UCC-1 Financing Statements and UCC-3 statements, if any, for each District and State Agency with the Secretary of State of the State of Mississippi. Advisor will prepare and timely file Form 8038-G with the Internal Revenue Service on behalf of DFA.**

---

*Confirmed.*

---

**37. Advisor shall prepare and distribute closing transcripts.**

---

*Confirmed.*

---

**38. Advisor shall prepare and distribute to the State a post-sale analysis detailing the results and market conditions for each competitive sale.**

---

*Confirmed.*



---

**39. Advisor shall coordinate equipment acquisitions between Program participants and vendors.**

---

*Confirmed.*

---

**40. As Disbursement Requests are received, Advisor shall review the applicable purchase orders, invoices, and vendor contracts for consistency and recalculate pricing accuracy.**

---

*Confirmed.*

---

**41. Advisor shall match each Disbursement Request to the original spreadsheet to ensure that the equipment was contemplated for acquisition under the Program and review requested substitutions.**

---

*Confirmed.*

---

**42. Advisor shall maintain balances for each piece of equipment and for each District and State Agency in conjunction with the Trustee.**

---

*Confirmed.*

---

**43. Advisor shall transmit Disbursement Requests with proper attachments (e.g., purchase orders, invoices, and declaration of intent to reimburse) to Trustee for vendor payment.**

---

*Confirmed.*

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**44. Advisor shall prepare customized semi-annual invoices in summary and by District and State Agency and by equipment within a District and State Agency, if requested. Advisor will distribute invoices to the individual District and State Agency and the Department of Finance and Administration, Director, Office of Budget and Accounting 30 days prior to payment date.**

---

*Confirmed.*

---

**45. Advisor shall coordinate with Trustee on lease payment discrepancies and late payments.**

---

*Confirmed.*

---

**46. Advisor, on behalf of the Trustee, shall request copies of insurance policies or evidence of self-insurance on each District and State Agency and will request updated information on an annual basis.**

---

*Confirmed.*

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**47. Advisor shall assist the State in obtaining annual rebate and arbitrage calculations in compliance with federal tax law. The annual calculations will be provided at the State's expense.**

---

*Confirmed.*

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**48. Advisor periodically shall contact each District and State Agency with respect to drawdowns in the respective Acquisition Accounts. Based on the District's and State Agency's responses, Advisor will direct the Trustee to reinvest the acquisition funds in qualified investments, in accordance with the provision of the Trust Indenture.**

---

*Confirmed.*

---

**49. Advisor shall perform semi-annual calculations to determine interest earnings in the Acquisition Account by District and State Agency and by equipment within a District and State Agency. After all rebate calculations have been performed, Advisor will determine the amount of interest earnings available for each District and State Agency, and will notify DFA of this amount. Advisor will arrange for the disbursements of such interest earnings at the discretion of DFA.**

---

*Confirmed.*

---

**50. Semi-annually, Advisor shall report the status of the Acquisition Accounts by District and State Agency for all outstanding leases to the DFA, OPTFM.**

---

*Confirmed.*



---

51. If prepayment options are exercised, Advisor shall coordinate with the District and State Agency and Trustee in calculating pay-off amounts and timing.

---

*Confirmed.*

---

52. Documents. Advisor shall assure that the process and documents comply with Rule 15(c) 2-12, as amended.

---

*Confirmed.*

---

53. Laws. Advisor shall assure that all documents and procedures will comply with all federal and state laws and regulations governing the MLPP and will advise the State of any responsibilities concerning such laws which are or may be responsibilities of the State.

---

*Confirmed.*

---

54. Legal Matters and Tax Exemption. Advisor shall prepare sample legal opinions which will support the documents and the process and indicate that the State's execution and delivery of any such documents will be subject to review and approval of the State's counsel. The State will be responsible for the cost of review by its counsel of all documentation related to the Agreement and any resulting funding. The Attorney General of the State will deliver an opinion that the Agreement and the supporting documentation constitute legal, valid, and binding obligations of the State, enforceable against the State and in accordance with their respective terms. Likewise, Advisor shall insure the State's approved tax counsel provides a tax counsel opinion to the State on the legality of documents, tax exempt status and conformity with Internal Revenue Code Regulations, which tax counsel opinion shall indicate that the State is qualified as a political subdivision under Section 103 of the Internal Revenue Code of 1986 and that the interest portion of any payments will constitute interest not to be included in gross income for purposes of federal and state income taxation. The State and Advisor will covenant to comply with all rules, regulations, or procedures required in order to establish or preserve the tax-exempt nature of any resulting certificates. Any resulting financing will not be a general obligation of the State.

---

*Confirmed.*

---

55. Acquisition Fund. The documents and process shall insure that any interest earned on funds residing in the Acquisition Account shall accrue to the District and State Agency which has borrowed the funds and may be used to purchase additional equipment and/or to reduce the principal amount due, as directed by DFA.

---

*Confirmed.*

---

56. Non-appropriation. The documents and process shall insure that continuation of the lease purchase of any item of equipment is contingent upon the annual appropriation of adequate funds to the using District and State Agency.

---

*Confirmed.*

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57. Miscellaneous. Advisor shall coordinate with DFA to maintain and update, as needed, the State's website for the Master Lease Programs.

---

*Confirmed.*

---

58. Advisor shall assist the Office in the development of a solicitation for Bond and Tax Counsel.

---

*Confirmed.*

---

59. Advisor shall assist the Office in the development of a solicitation for Trustee.

---

*Confirmed.*



## Tab 5 - Questionnaire with Responses

**1. Provide the name, title, mailing address, e-mail address, and telephone number of the contact person for this proposal.**

Contact Name: Vickie Hall

Title: Vice President

Mailing Address: 717 N. Harwood, Suite 3400, Dallas, Texas 75201

Email: vickie.hall@hilltopsecurities.com

Phone: 214.953.8874

**2. State the full name of the proposing firm and provide the address, and telephone number of the principal place of business.**

Hilltop Securities Inc.

**Headquarters** - 717 N. Harwood, Suite 3400, Dallas, Texas 75201

Dallas, Texas 75201

Phone: 214.953.4000

**3. List the office that will service DFA. If it is located at a different address than the home office, provide the complete address, phone number, and facsimile number for this office.**

The team that will service DFA is located at the firm's headquarters in Dallas, as noted above in *Item 2*.

**4. Describe your organizational structure. Indicate whether your firm operates as a corporation, partnership, individual, etc. If it is incorporated, include the state in which it is incorporated, and list the names and occupations of those individuals serving on your firm's Board of Directors.**

HilltopSecurities is a Delaware corporation. The firm's current Board of Directors is shown below:

Jonathan S. Sobel, Chairman of the Board of Directors, Hilltop Securities Inc.

M. Bradley Wings - HilltopSecurities employee

John R. Muschalek - HilltopSecurities employee

J. Michael Edge - HilltopSecurities employee

Laura Leventhal - HilltopSecurities employee

Michael J. Marz - HilltopSecurities employee

David K. Medanich - HilltopSecurities employee

Laura B. Alexander - HilltopSecurities employee

M. Teresa Aguilera-Peon - HilltopSecurities employee

**5. List the name and principal occupation or business of any person or entity owning 10% or more of your firm.**

HilltopSecurities is a wholly owned subsidiary of Hilltop Securities Holdings LLC, which is wholly-owned by Hilltop Holdings Inc., a publicly traded company.

**6. Describe any ownership or name changes your firm has been through in the past three years. Are any ownership or name changes planned?**

There have been no recent ownership change or name changes within the past three years and there are no ownership or name changes planned.

**7. Describe any changes in the organizational structure that have occurred within your firm over the past twenty-four months or are anticipated during the next twenty-four months including, but not limited to, addition or elimination of product or business lines, mergers, firm acquisitions, etc.**

There have been no changes to the organizational structure within the firm over the past twenty-four months and none are anticipated during the next twenty-four months including mergers, acquisitions, or restructuring.

**8. How long has the proposing firm been providing financial advisory services? Please indicate the month and year in which the proposing firm was established.**



Two firms joined to form Hilltop Securities Inc.: First Southwest Company, LLC, was founded in 1946. Southwest Securities, Inc., was founded in 1972. The two legacy firms merged in January 2016 to form Hilltop Securities Inc.

**9. What was the average number of employees in your firm for the past twelve months? Has this average changed in the past three years?**

The firm had an average of 769 employees for the 12 month period September 1, 2020 - August 31, 2021, The average number of employees over the 36-month period of September 1, 2018 - August 31, 2021 changed slightly to 807 employees.

**10. State if the proposed account executive, any officers or principals and/or their immediate families are, or have been within the preceding twelve months, employees of the State of Mississippi.**

Neither the proposed account executive, any officers nor principals and/or their immediate families are, or have been within the preceding twelve months, employees of the State of Mississippi.

**11. Has your firm ever been involved in a lawsuit involving any area covered by this RFP? If yes, provide details including dates and outcomes.**

Legal proceedings in connection with the firm's provision of advisory services are set forth in the Municipal Advisor Disclosure Statement included as **Appendix A** to the firm's proposal.

**12. During the past five (5) years, has your company, related entities, principals or officers ever been a party in any material criminal litigation, whether directly related to this RFP or not? If so, provide details including dates and outcomes.**

HilltopSecurities has not been party to any criminal litigation during the past five (5) years.

**13. Has your firm been cited or threatened with citation within the last three years by federal or state regulators for violations of any federal, state, or local law or federal, state or local regulation? If the answer is yes, please describe the circumstances in detail.**

From time to time in the ordinary course of its business, HilltopSecurities is called upon to respond to inquiries or is subject to investigations or proceedings by federal, state or industry self-regulatory organizations. To the best of our knowledge, information and belief based upon the facts available at this time, there is no threatened or pending inquiry, investigation, or regulatory proceeding that we believe would have a material adverse impact on the ability of HilltopSecurities to perform public finance financial advisory services. The Financial Industry Regulatory Authority (FINRA) maintains a public database known as BrokerCheck® that discloses reportable regulatory matters for HilltopSecurities. BrokerCheck® may be found at [www.FINRA.org](http://www.FINRA.org).

**14. Confirm that your firm is not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transaction by any federal department or agency, or by any political subdivision or agency of the State of Mississippi.**

HilltopSecurities is not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transaction by any federal department or agency, or by any political subdivision or agency of the State of Mississippi.

**15. Provide a complete résumé for each staff member (in Tab 10 of your proposal) who will be assigned to render services to DFA, including detailed information on any special training or designations.**

Please see **Tab 10** for complete résumés for team members Steven D. Johnson, Vickie Hall, Emily Hundley, Peter Stare and Shari Goldberg.

**16. Please confirm the proposal is valid for at least 180 days subsequent to the date of submission.**

HilltopSecurities confirms that its proposal is valid for at least 180 days subsequent to September 3, 2021, the date of submission.



---

## Tab 6 - References

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All of the requested references should be provided using the References Form in Appendix B.

1. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP. A description of the functions provided as well as the name, address, and phone number of a representative of the firm or entity must be included. Documentation concerning recent issues is also required. The documentation shall include a description of the equipment purchased as well as the amount financed, the date financed, and the interest rate obtained. The representative must have adequate knowledge of the documentation provided to be able to discuss with the State.

---

Please see the References Form included in this **Tab 6**.

## Appendix B - References

<b>Client Name</b>	<b>State of Mississippi, Department of Finance &amp; Administration</b>
<b>Contact Name and Title</b>	<b>Belinda Williams-Russell, CPM, CMPA</b>
<b>Contact Address</b>	<b>P.O. Box 267, Jackson, MS 39205</b>
<b>Contact Telephone Number</b>	<b>601.359.5041</b>
<b>Email Address</b>	<b>belinda.russell@dfa.ms.us</b>
<b>Type of work provided to the client</b>	<b>Financial Advisory services related to Master Lease Programs</b>
<b>Number of covered lives in the client's group</b>	<b>N/A</b>
<b>Contract effective dates for the time period(s) services provided to client</b>	<b>Client since 2003</b>

<b>Client Name</b>	<b>Mississippi Institutions of Higher Learning</b>
<b>Contact Name and Title</b>	<b>John Pearce, Jr., Associate Commissioner for Finance</b>
<b>Contact Address</b>	<b>3825 Ridgewood Road, Jackson, MS 39211</b>
<b>Contact Telephone Number</b>	<b>601.432.6122</b>
<b>Email Address</b>	<b>jpearce@ihl.state.ms.us</b>
<b>Type of work provided to the client</b>	<b>Financial Advisory services related to Master Lease Programs</b>
<b>Contract effective dates for the time period(s) services provided to client</b>	<b>Contract signed in July 2020; prior services performed without benefit of contract</b>

<b>Client Name</b>	<b>City of Atlanta, Georgia</b>
<b>Contact Name and Title</b>	<b>John Gaffney, Deputy Chief Financial Officer</b>
<b>Contact Address</b>	<b>68 Mitchell Street, Suite 11100, Atlanta, GA 30303</b>
<b>Contact Telephone Number</b>	<b>404.330.6084</b>
<b>Email Address</b>	<b>jgaffney@atlantaga.gov</b>
<b>Type of work provided to the client</b>	<b>Ongoing Financial Advisory Services. Current Debt Outstanding \$7.6 Billion</b>
<b>Contract effective dates for the time period(s) services provided to client</b>	<b>Client since 2008</b>

*Additional references to meet the requirements of the procurement should be submitted on a separate page.*

## Appendix B - References

<b>Client Name</b>	<b>Metropolitan Government of Nashville &amp; Davidson County</b>
<b>Contact Name and Title</b>	<b>Michell Bosch</b>
<b>Contact Address</b>	<b>1 Public Square, Suite 106, Nashville, TN 37201</b>
<b>Contact Telephone Number</b>	<b>615.862.6154</b>
<b>Email Address</b>	<b>michell.bosch@nashville.gov</b>
<b>Type of work provided to the client</b>	<b>Ongoing Financial Advisory Services. Current Debt Outstanding \$5.4 Billion</b>
<b>Contract effective date for the time period(s) services provided to client</b>	<b>Client since 2008</b>



## Tab 7 - Service Plan

### 1. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.

The proven capabilities of HilltopSecurities and its knowledge of Mississippi requirements for lease-purchase transactions, together with the extended services offered by the firm provide maximum benefits in structuring and maintaining a master lease program: The State's Master Lease Program for State Agencies (the "State Agency Program") has evolved since 1993 to become a standard for master lease programs in other states, as has the State's Master Lease Program for School Districts and Community College Districts (the "District Program"). As used in this proposal, "Program" shall refer to both the State Agency Program and the District Program. HilltopSecurities recommends the continued use of the Program as it is currently structured. As more efficient or effective aspects of the Program are discovered, HilltopSecurities will incorporate those improvements into the Program. Complete information about the current Program follows:

- HilltopSecurities has successfully served as financial advisor (or in some cases, co-financial advisor) to the State for its Master Lease Program for State Agencies (the "Program"), as well as the master lease programs for School Districts and Community and Junior College Districts since 2003; that experience is mirrored by FirstSouthwest Leasing, the municipal leasing affiliate of HilltopSecurities. Vickie Hall, an active participant in the Program, has been involved with Program since its inception in the 1990's through a previous employer.
- **(for the State Agency Program)** - Pursuant to Section 31-7-10 of the Mississippi Code of 1972, as amended, the Program is structured as a master lease agreement (the "Master Lease") between the Department of Finance and Administration ("DFA"), as lessee, and FirstSouthwest Leasing, as lessor.
- **(for the District Program)** - Pursuant to Section 31-7-10(15) of the Mississippi Code of 1972, as amended, the Program is structured as a master lease agreement (the "Master Lease") between the Department of Finance and Administration ("DFA"), as lessee, and FirstSouthwest Leasing, as lessor.
- If the Program is required to be re-validated, HilltopSecurities will assist in the validation process, as requested.
- HilltopSecurities will assist DFA in preparing Requests for Proposal to solicit bids for corporate trustee (the "Trustee") and special tax counsel, upon request.
- HilltopSecurities will be responsible for the coordination, administration and management of the Program. Structurally, the Program consists of the aggregation of the purchasing or refinancing needs of one or more State Agencies (the "Agencies") and/or School Districts/Community College Districts (the "Districts"). The Agencies and the Districts are collectively referred to as the "Participating Users". The aggregated equipment needs of the Participating Users are in turn financed through the competitive or negotiated sale of individual series of Lease Revenue Certificates of Participation ("COPs") or financed directly with bank financing on a private-placement basis.
- Each Participating User will enter into a User Agreement with DFA, pursuant to which each Participating User will agree to
  - lease purchase certain equipment acquisitions and/or refinance the lease purchase of certain equipment currently subject to outstanding lease purchase arrangements and
  - make certain semi-annual lease payments to DFA in order to enable DFA to pay, pursuant to the Master Lease, for the equipment to be lease purchased or refinanced.
- HilltopSecurities will deliver invoices to each Participating User regarding the lease payments to be made to DFA pursuant to the respective User Agreements. HilltopSecurities will work with the individual Participating Users to develop an invoice for each user that accommodates the particular procedures or requirements of that Participating User. For instance, a Participating User may require an aggregate invoice that lists each item of equipment by purchase order number, or perhaps separate invoices are required for each item of equipment by purchase order, by department within a Participating User, or by a special program for which the equipment was acquired. The Participating User may require that the lease payments be broken out by principal and interest. There are numerous variations and HilltopSecurities will work to ensure that each Participating User's needs are met.



- Each **State Agency** will remit the lease payments to DFA by submitting a check or warrant to DFA. Arrangements can also be made with DFA to automatically withdraw each lease payment from the appropriate Agency accounts when due and payable to DFA, if requested by the Agency. DFA will aggregate all of the lease payments made by each participating Agency and will use those payments to make the required lease payments to the Trustee under the Master Lease.
- Each **School District** will remit the lease payments to the State Department of Education. Upon receipt of the School District's lease payments, the Department of Education will remit payments to DFA. In the event that a School District fails to make its lease payments in timely manner, the Department of Education will notify DFA of such failure and DFA will withdraw a corresponding amount from the minimum education and/or adequate education program fund allotments to make such lease payments, all pursuant to Section (15) of the Master Lease Statute. DFA and the Department of Education have formalized this agreement pursuant to an Intercept Agreement dated as of June 3, 2003.
- Each **Community College District** will remit its lease payments to DFA. In the event that a Community College District fails to make its lease payments in timely manner, DFA will immediately notify the State of Mississippi Board of Community and Junior Colleges, and DFA will immediately draw such amounts as are due from any funds allocated for the respective Community College District in the state appropriations for the use and support of the Community and Junior Colleges, pursuant to Section (16) of the Master Lease Statute. In the event that DFA intercepts funds as described herein, the Board of Community and Junior Colleges will deduct a corresponding amount from the monthly disbursements that are made by the Board to the applicable District.
- DFA will aggregate all of the lease payments made by each participating District and will use such payments to make the required lease payments to the Trustee under the Master Lease.
- A series is typically funded through an assignment to the Trustee of FirstSouthwest Leasing's rights to receive the lease payments payable by DFA and the execution and delivery of COPs in such lease payments to investors in the public markets. Lease payments made by DFA under the Master Lease will be paid to and used by the Trustee to make required payments to the purchasers of the COPs in the particular series.
- Typically, one or two series of competitively-bid or negotiated COPs are sold each year. HilltopSecurities will develop a Preliminary Offering Circular for any series that is publicly-offered, to be electronically distributed to potential underwriters through the services of I-deal. HilltopSecurities attends the bid opening and also conducts the award process in person or via telephone conference.
- If the COPs are private-placed, HilltopSecurities does not serve as placement agent. The firm will prepare a term sheet summarizing the terms of the deal and will distribute the term sheet as directed by DFA.
- Upon request, HilltopSecurities will prepare a post-sale analysis for each series of COPs.
- On the settlement date for each series of COPs, the Trustee deposits funds necessary to purchase requested equipment or to refinance existing lease purchase obligations for each Participating User in a trust account pending a request from the Participating User to pay a vendor for accepted equipment. To request vendor payment, a Participating User will complete and submit a Request for Disbursement, a form of which is attached to each User Agreement. To complete a Request for Disbursement, a Participating User (i) will attach invoices, purchase orders, title applications, and other similar paperwork requested on the Request for Disbursement and (ii) provide the name of the vendor and the method by which the Trustee should pay the vendor, such as by check (by including the vendor's delivery address) or by wire (by including wire instructions for the vendor). Upon the Participating User's completion of the Request for Disbursement and delivery to HilltopSecurities, HilltopSecurities will review the Request for Disbursement for accuracy, then forward it to the Trustee. The Trustee will pay each vendor directly as specifically requested by the Participating User. Pending disbursement, interest earnings attributable to the Acquisition Fund will accrue to the benefit of the State.
- HilltopSecurities will be responsible for preparing all documentation specific to the transaction, including the Master Lease, the User Agreements, the Trust Agreements, all Assignments, the Term Sheet, a Certificate Purchase



Agreement, tax reporting documents, UCC financing statements, disclosure and marketing materials, and all ancillary documents. HilltopSecurities will also be responsible for distributing the documents to DFA, the Participating Users, the Trustee, Trustee's counsel, special tax counsel, bankruptcy counsel, local counsel, Office of the Attorney General, rating agencies, providers of credit enhancement, if applicable, and any other interested parties. HilltopSecurities will also be responsible for coordinating with local counsel, special tax counsel, bankruptcy counsel and the Office of the Attorney General regarding the substance and receipt of opinions to be rendered by those parties. Steve Johnson and Vickie Hall both are licensed attorneys and are available to discuss legal issues related to the Program with counsel to DFA and to the Participating Users.

The following is a list of typical documents prepared for each financing:

**To be Executed by DFA:**

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Master Lease Purchase Agreement</li><li>• Each User Agreement</li><li>• Consent to Lease and Assignment of Title</li><li>• Acknowledgment of Assignment</li><li>• Closing Certificate</li></ul> | <ul style="list-style-type: none"><li>• Arbitrage and Tax Certificate</li><li>• Invoicing Instructions</li><li>• Continuing Disclosure Certificate</li><li>• Evidence of Insurance</li><li>• Form 8038-G</li></ul> |
|---|--|

Additionally, the Office of the Attorney General will render an opinion to the effect that, among other things, DFA and the Participating Users have the ability to enter into the financing documents and that the documents constitute the respective binding obligations of DFA and the Participating Users.

**To be Executed by Each Participating User:**

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• User Agreement</li><li>• Consent to Lease and Assignment of Title</li><li>• Closing Certificate</li></ul> | <ul style="list-style-type: none"><li>• Invoicing Instructions</li><li>• <b>(applicable to the Districts only)</b> Form 8038-G</li></ul> |
|---|--|

In addition, the Board of each District must adopt an authorizing resolution that, among other things, approves the District's participation in the Series, approves the forms of the financing documents, and authorizes the Superintendent to execute documents on behalf of the District.

**Post-Closing Servicing:**

HilltopSecurities provides a high level of post-closing services throughout the term of each series. These services range from:

- customized invoicing
- maintaining detailed reconciliations and analysis of client accounts such as lease payment history and vendor payments in an escrow account which information is available via telephone or email during regular business hours
- on-going monitoring of the lease markets for new trends and development of new ideas in leasing
- individual or group education about the program to all participants, such as introductory phone conferences or personal meetings and working sessions to explain the documentation and the range of options available for payments to equipment vendors
- confirming transactions recorded on monthly trustee statements to verify that vendor payments have been made as requested and lease payments and interest earnings, if any, have been properly credited
- maintaining perfected security interests through filing of UCC financing statements
- assisting in the investment of acquisition or escrow funds.

Personnel are available for support during the hours of 8:00 a.m. to 5:00 p.m. (Central Standard Time), Monday through Friday, excluding holidays.



## Informing the Participating Users About the Program:

To optimize the Program, HilltopSecurities is available for one-on-one consultation or educational meetings with individual Participating User or for group presentations. In the past, HilltopSecurities has presented a **“Leasing 101”** workshop at the annual conference held by the Mississippi Association of Governmental Purchasing and Property Agents. HilltopSecurities explains the Program, including its benefits and the process, and conducts a question-and-answer session. This hands-on presentation presents an invaluable opportunity to education agencies about the Program and can be revitalized if DFA requests. Although some time has lapsed since the firm participated in the 2014 “Roadshow” –type venue in conjunction with DFA’s annual meeting with school districts, the concept was valuable and well received. Over a week’s time, HilltopSecurities presented an informational segment about the District Program in four locations across the State as a part of the State’s larger agenda.

In order to ensure the continued success of the Program, to estimate demand for future issues and effectively manage the Program, HilltopSecurities proposes the following:

- HilltopSecurities periodically will distribute any changes to or notices about the Program to all Participating Users.
- Periodically, HilltopSecurities will distribute to DFA and the Participating Users a demand survey that will assist the Participating Users in determining their individual equipment needs for the next six to twelve months.
- HilltopSecurities is available by phone, fax, email, writing, or in person to address issues one-on-one to ensure that each Participating User receives personal, individualized attention to its concerns and questions.

## 2. Description of information needed from a District and/or a State Agency to prepare the documentation required to acquire funding.

HilltopSecurities will assist the State by gathering all information regarding the essential use and justification for any equipment to be acquired under the Program. In that regard, a questionnaire similar to the following form will be utilized to obtain pertinent detailed information describing the equipment to be financed, as well as any information required to gain an understanding of the essentiality of the equipment to the operations of the Participating User. HilltopSecurities also will supply customized questionnaires for special projects financed under the Program. A sample Equipment Questionnaire is included in this **Tab 7**.

HilltopSecurities has often met personally, and will continue to do so as the need arises, with a Participating User to gain a complete understanding of the equipment acquisition. Developing comprehensive descriptions of equipment to be financed pursuant to the Program is a critical factor in obtaining the lowest cost of financing. Providing adequate information to rating agencies, credit enhancers, and/or investors with respect to the essentiality of equipment to be acquired provides a level of comfort to these parties that the appropriations for the equipment are likely to be continued. Good examples of essential and well-justified equipment purchases would include the following examples:

- **For State Agencies:** equipment that is vital to the continued operation of the vital functions of State government and to enable the State and its agencies to meet their mandated missions as determined by the State legislative process
- **For Districts:** equipment that is vital to the continued operation of the District’s vital functions and to enable the District to meet its mandated missions
- equipment that results in the reduction of other expenditures such as (a) maintenance and repair expenses, (b) replacement of material parts, (c) expenses related to energy costs (i.e., gasoline and electricity costs), (d) and/or a reduction of other expenses
- equipment that enables the State (or the District) to receive higher levels of federal funding by enabling the Participating User to meet requirements for certain federal reimbursement programs.

It should be noted that rating agencies do consider the justification for, and essential nature of, the equipment during the rating process. Therefore, evidence with respect to why the equipment is being acquired, what the equipment will be utilized for and the economic benefits, if any, obtained through the acquisition of the equipment is important to both rating agencies and investors.



The Participating Users should notify DFA and HilltopSecurities with respect to any federally allocated funds that may be used to pay lease payments, an important fact in ascertaining and protecting, if possible, the tax-exempt status of the financing.

**3. Copies of representative documents which have been used or could be used by other entities to establish similar programs and to obtain funding (to include, if applicable, a Master Lease Purchase Agreement, Arbitrage and Tax Certificate, Closing Certificate, District and State Agency Sublease Agreement, offering materials, legal opinion, etc.).**

A **single copy** of the transcript for the privately-placed Certificates of Participation sold in connection with Series 2020A of the Program is included as **Separately-Sealed Exhibit 1**. The transcript contains every document that is utilized in the Program.

**4. Audited financial statements for the contracting entity shall be provided for each of the last five (5) years, including, at a minimum: a. Statement of income; b. Balance sheet; c. Statement of changes in financial position during the last five (5) years; d. Statement of cash flow; e. Auditors' reports; f. Notes to financial statements; and, g. Summary of significant accounting policies.**

HilltopSecurities has included its Audited Financial Statements for 2020, 2019, 2018, 2017 and 2016 in this **Tab 7**.

**5. Name, background, years of experience and qualifications of personnel to be involved with the State of Mississippi MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies.**

Please see the resumes in **Tab 10**.

**6. Offerors must submit a list of master equipment leases undertaken during the past three (3) years, grouping those from \$1 to \$5 million and from over \$5 million to \$10 million. Information must include lessee name, equipment amount, method by which the lease was financed and an indication whether the lease was rated or insured.**

A list of master leases undertaken since 2018 is included in this **Tab 7**.

**7. Offerors must submit a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects. This should include any additional forms, records, or approvals which must be considered for items (a) – (d). It is the intent of this requirement to ascertain the Offerors' general knowledge of issues which have or may develop under the Programs.**

(a) **Lease purchase of an airplane** – The Master Lease and the related User Agreement will be revised to include covenants and representations to be made on behalf of the Agency to the effect that the Agency will maintain and operate the aircraft in accordance with rules and regulations promulgated by the Federal Aviation Administration ("FAA"). HilltopSecurities obtains the services of attorneys that specialize in working with the Office of the General Counsel of the FAA. Local counsel will record the Master Lease, User Agreement and Trust Agreement with the FAA to perfect the Trustee's security interest in the aircraft. At that time, local counsel will obtain an appropriate legal opinion from the Office of the General Counsel of the FAA. HilltopSecurities will also use the services of local counsel to seek and obtain aircraft title searches and to arrange for the termination of any existing liens on an aircraft. HilltopSecurities has structured lease-purchase finance for aircraft for the Mississippi Institutions of Higher Learning, the State of Mississippi, the State of Arizona, the State of Oklahoma, the State of Utah and the State of North Carolina.

(b) **Funds remaining in an acquisition account for three years** – HilltopSecurities maintains an on-going balance for each acquisition account with respect to the individual Participating Users. HilltopSecurities periodically, and upon request, advises the individual Participating Users as to its options with respect to disposition of funds in the acquisition account, *i.e.*, as a credit to the next lease payment, for the purchase of additional equipment, or to prepay lease obligations. HilltopSecurities currently reconciles the acquisition and certificate fund accounts, providing a "check and balance" for the Trustee, which results in a reduction of trustee fees for the Program.

The occasion to revisit the instance of remaining funds in an acquisition account was presented recently in connection with Series 2018A. The Department of Agriculture and Commerce had planned to acquire \$1.5 million in Series 2018A equipment with a three-year lease term. The Department experienced difficulty in obtaining a number of items of the planned acquisitions due to the Covid shutdown in 2020 - 2021. As a result, at the end of the three-year period, approximately \$300,000 remained in the acquisition account. HilltopSecurities spoke to the Department, who expressed



an ongoing need for the planned acquisitions and a result to extend the three-year period. Through discussions with DFA's special tax counsel, it was determined that the provision to transfer unused acquisition funds to the Certificate Fund is permissive and that DFA could waive the requirement. Investment of funds in the acquisition account would be restricted to the yield on the lease agreement which, in the current interest rate environment, is not problematic.

The firm's arbitrage rebate compliance services practice ("HilltopSecurities Asset Management, LLC" or "HSAM") is one of the largest in the U.S. Since 1987, the firm has focused exclusively on Internal Revenue Service compliance to assist its clients in preserving the tax-exempt status of their bond issues. HSAM provides arbitrage rebate calculations to determine if funds must be rebated to the federal government pursuant to the Internal Revenue Code. HSAM's services are provided under a separate contract and at DFA's expense. The prices quoted in this proposal do not include a component for arbitrage rebate calculations.

(c) **Pay off prior to the final scheduled payment date** - Each Participating User typically has the right to purchase the equipment and pay off its obligations prior to the final scheduled payment date of the User Agreement. Although the terms of the agreement are negotiable, a Participating User can usually pay its entire obligation on any payment date that is one or two years after the date of the agreement by paying a "Purchase Option Price", and any lease payment then due. The Purchase Option Price is comprised of the remaining principal balance and a proportionate amount of the unamortized costs of issuance of the series. HilltopSecurities will calculate the Purchase Option Price upon request.

The Agencies will also have the right to make partial prepayments, and HilltopSecurities will calculate the appropriate Purchase Option Price. Upon payment in full, or if a partial prepayment fully prepays a specific item of equipment, upon the partial prepayment, HilltopSecurities will arrange for appropriate release of lien documents to be prepared and filed, if any.

If a Participating User opts to purchase equipment or to prepay its obligations prior to the first permitted prepayment date (as defined in each User Agreement), the Participating User has the right to defease its obligations. To defease under the User Agreement, the Participating User will deposit funds which will be sufficient to continue to pay the scheduled lease obligations until the first permitted prepayment date. HilltopSecurities will assist the Participating User to verify the amounts required to defease its obligations under the User Agreement.

An interesting approach to prepaying a Participating User's obligations under the User Agreement occurred in June 2016. Due to budget cuts, a Participating User wanted to pay in advance its two remaining payments. Working with the Trustee and the Participating User, HilltopSecurities facilitated a transaction where the Participating User wired an amount equal to its remaining two payments, to the Trustee. The Trustee held the funds in the Certificate Payment Account pending a direction to withdraw therefrom an amount equal to the Participating User's October payment and later, the final April 2017 payment.

(d) **Change orders which require additional funding for previously funded projects** - The typical lease purchase agreement contains provisions to the effect that, if financed equipment is added to, modified, improved, or upgraded, those improvements are deemed to be a part of the original financed equipment. The improvements now secures the lien of the original lessor and the original investors. If a second financing is required to raise funds for the improvements, the new investors cannot have a priority lien position because two identical liens on the same equipment cannot exist. As this situation arises, HilltopSecurities is available to advise the Participating User and DFA on a case-by-case basis. HilltopSecurities may need to consult with the rating agency or credit enhancer, if applicable, of the existing lease to determine the criteria of those companies. In some instances, such as computer systems development, the ultimate solution may be that the existing lease is prepaid from the proceeds of a new lease with increased funding for the change orders.

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**8. Offerors must submit a suggested check list containing occurrences the State should consider concerning market conditions and the timing of financial transactions.**

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The following is a suggested checklist for occurrences the State should consider pertinent to the timing of its lease purchase transactions.



- Key economic news – globally, United States and State
- Timing of other State issues
- Forward Calendar for municipal issues
- Interest rate trends; FOMC meetings and news
- Pending legislation at both the state and federal levels

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**9. Offerors must submit a list of all Program limitations to include, but not be limited to, types of equipment and/or software which will not be covered by the agreement, minimum dollar amounts per transaction, and requirements for cross-collateralization of equipment within a District and State Agency and between Districts and State Agencies.**

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Generally speaking, HilltopSecurities has no limitations on its ability to structure a lease obligation for essential governmental use equipment with the exception of large financings for certain park and recreational equipment. HilltopSecurities believes that the public markets provide more access to financing for certain types of equipment such as software and other more complex “project” type financings.

HilltopSecurities would recommend caution when setting the financing term for “energy-efficiency” type equipment or retrofits. Vendors often recommend relatively longer financing periods, such as 15 or 20 years, for these projects. Technology changes so quickly that the financed equipment is sometimes obsolete years before the lease term is complete.

To create the economies of scale that should exist in a multi-user lease program, a series of COPs should approach between \$2.5 and \$3 million. The Program does not have a minimum dollar amount and HilltopSecurities has structured series under the Program over the last five years ranging from \$1.3 - \$7.4. It is prudent to keep in mind that a smaller funding amount could disproportionately increase the costs associated with the series, to each Participating User.

The Master Lease and the User Agreements will not contain provisions for cross-collateralization of equipment between Participating Users and between series.

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**10. Offerors must submit a calendar of events from contract award to first financing. This calendar should include estimated dates and events which must take place prior to the initial financing.**

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Please see the suggested Closing Schedule included in **Tab 7**.

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**11. Offerors must submit a complete description of the method or methods that will be used to obtain funding. This description shall explain how interest rates will be determined (sealed bid, negotiation, etc.) and shall fully describe how the State will be able to assure that the interest rates are competitive in the market and represent a good rate for the Districts and State Agencies. If multiple methods are proposed, the Offeror shall describe the circumstances which would require the use of the various methods.**

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Many of the equipment acquisitions under the Program have been funded by offering series of COPs through a sealed-bid, competitive sale process or, alternatively, through negotiated sale. Each competitive series will be awarded to the underwriter or underwriting group with the lowest True Interest Cost or “TIC. In some instances, a bidder will include a syndicate composed of multiple firms, comparable to the State’s general obligation bond sales.

The municipal marketplace has been very responsive to the State’s Master Lease Program. In a competitive offering, HilltopSecurities publishes a notice of sale in *The Bond Buyer*, arranges for the distribution of a Preliminary Offering Circular, and personally contacts potential bidders prior to each sale.

The State has received a consistently high level of success in both competitive and negotiated sales, due to the State’s strong credit perception in the market as well as a developed market for lease revenue certificates. Rates on each series typically have been 10 basis points off the Municipal Market Data insured scale. This rate is favorable for securities with a short call protection period and reflects the market’s confidence in the State’s master lease programs as well as the State’s strong credit rating. HilltopSecurities will continue to monitor the Program to ensure that it complies with the stringent criteria established by the rating agencies.

While other types of financing are available, it has been the firm’s experience that securitizing the leases (that is, converting the leases into securities) and selling participations in the lease revenue stream in the form of the COPs, is an efficient



and cost-effective method for these types of lease programs. A well-established market exists for the State's COPs; historically, the State has received a favorable interest rate by offering tax-exempt securities sold in the public markets.

Aggregating the equipment needs of several Participating Users and funding into an Acquisition Fund enhances the Program by locking in interest rates in a favorable interest rate environment rather than depending on an index for the acquisition of individual items of equipment. Institutional investors, such as banks or insurance companies, sometimes propose a lease pricing structure that is indexed to treasury notes and bid as a higher percentage of the taxable treasury note rates when rates are lower, as opposed to a lower percentage when rates are higher. Indexing a lease program can be potentially detrimental if interest rates are low at the inception of the lease program and subsequently increase.

Even in the best of markets with a recognized credit, there may exist economic or other market factors that indicate a negotiated sale would be more beneficial to the State than would a competitively-bid sale. HilltopSecurities will analyze market conditions to determine whether a negotiated sale is warranted over conducting a competitive bid. Market factors will be discussed with DFA and a final sale method will be suggested and discussed, then selected by DFA.

More recently, since the sale of the Series 2016A COP's, the State has wanted to give local banks the opportunity to bid on the Program and State opted to finance the equipment through the sale of unrated, privately-placed COPs, competitively-bid by local banks. As these series were unrated, the cost of issuance was decreased by the lack of rating fees and need for public offering documents. Bidders have been given the option to bid with or without the requirement of a debt service reserve fund and in all cases the successful bidder did not require a reserve fund. The State and borrower benefit from this by not having to raise the additional proceeds needed for a debt service reserve fund. The additional benefit of not having to fund the debt service reserve is that it lowers the all-in cost to the lessor due to the negative carry cost on the reserve fund. The bottom line, while the difference in yield to the investors is minimal, the net result to the State and lessor in terms of dollars saved is significant.

In addition to dollar savings, the negotiated privately-placed option offers savings in time. Being able to negotiate with a local buyer and "pull the trigger" when conditions are favorable is another win.

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**12. What level of staff will be used for the following: developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs.**

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Senior team members Steve and Vickie will handle these tasks. Steve and Vickie each have over 25 years of public finance experience.

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**13. Please provide the total years of experience and state experience for the Staff Lead Manager.**

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As mentioned above, Senior team member Steve Johnson has 25 years of public finance experience; 17 of which are with HilltopSecurities. Senior team member Vickie Hall has 31 years of public finance experience, 18 of which have been with HilltopSecurities. Each member of the financing engagement team will hold a Series 50 license, which is required to provide municipal advice to our clients.

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**14. Please provide the total years of experience and state experience for the proposed staff/team.**

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Please see the resumes in **Tab 10**.

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**15. If necessary how fast can members of the proposed staff be replaced, regardless of level.**

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HilltopSecurities implements a "team concept" approach when assembling engagement teams, meaning that multiple senior-level professionals are on each team for redundancy. To that end, we are introducing another banker to our team, Emily Hundley, a Senior Vice President with 12 years' experience at HilltopSecurities. Emily will become familiar with the mechanics, operation and documentation of the Programs by working alongside Steve and Vickie throughout each series. Each Team member will be familiar with the ins and outs of the Program and will be able to pick up where one Team member has left off, due to the continuous and overlapping coverage strategy we implement.

A good example of a seamless transition occurred when Linda Noah, a long-time firm professional who had worked with the Programs for over two decades, was promoted to the Accounting Department of Hilltop Holdings Inc., the firm's parent



company. Linda had worked in concert with Shari Goldberg, another HilltopSecurities Accounting employee, for at least a year, so that Shari was able to assume Linda's responsibilities with a minimum of downtime.

---

**16. What level of staff will be used to manage and coordinate the pre-financing process between Districts and State Agencies.**

---

Senior team members Steve and Vickie will handle these tasks; each has over 25 years of public finance experience.

---

**17. What level of staff will be examining the software licenses?**

---

Senior team member Vickie Hall will handle this task. Vickie has over 27 years of municipal leasing experience.

---

**18. What level of staffing will review applicable purchase orders, invoices, and vendor contracts for consistency and recalculate for pricing accuracy.**

---

Senior team member Vickie Hall will handle this task. Vickie has over 27 years of municipal leasing experience. She will be assisted by Accounting Specialist Shari Goldberg with six years of experience. Shari has been processing the disbursements for the Program since 2019 when Linda Noah was promoted to the Accounting Department of Hilltop Holdings Inc., our parent company.

---

**19. Describe the education plan that the Offeror will use to educate Districts, State Agencies, and vendors to ensure potential participants have a sound working of the program, its structure, and applicable accounting and purchasing procedures.**

---

Please refer to our answer in **Tab 7, Item 1**.

---

**20. Describe the analytical methods utilized to analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.**

---

HilltopSecurities will discuss the planned equipment acquisitions with each Participating User. Follow-up conversations will be had with Special Tax Counsel to discuss any questions about the particular collateral and its useful life. Vendor payments can be requested as early as the funding date and this will be communicated to the Participating Users.

---

**21. Provide examples of past similar work, featuring spreadsheet breakdowns by client, or District or State Agency. Spreadsheets may include but not limited to: equipment description, equipment cost, anticipated delivery, and acceptance.**

---

HilltopSecurities has included a sample spreadsheet in this **Tab 7**.

---

**22. Describe the method of Distribution for financing documents to all applicable parties.**

---

HilltopSecurities will provide documents by methods that are convenient for the other participants. Generally speaking, we will circulate information and drafts by email. Documents for execution are distributed in several ways. For instance, some Participating Agencies are comfortable with receiving execution documents by email, accompanied by a letter of instruction for printing, signing and returning. Others prefer to receive paper copies and in those instances, we will provide execution copies via FedEx. Still others choose to meet in DFA's offices in Jackson for a physical signing which we have accommodated on a number of occasions.

---

**23. Describe the method(s) the advisor utilized to solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.**

---

Hilltop often assists its clients in soliciting via RFPs for engagements such as Trustee, Bond Counsel, Disclosure Counsel, Underwriters, Verification Agent, Paying Agent, Escrow Agent, etc. In doing so we work with the issuer to develop a set of criteria specific to the engagement and submit the RFP to parties known to provide such services. We then summarize the responses and review them with the client after which Hilltop will make a recommendation as to which vendor is providing the most value to the client.

Rating agencies however usually have pre-set fee structures based on the underlying credit (GO, Revenue, Short-Term, Long-Term, Fixed Rate, Variable Rate, etc.) and issue size. As such, we typically solicited a quote whichever rating agency provides the lowest cost would be awarded the transaction.

---

**24. Describe the Bid method used to obtaining a guaranteed investment contract.**

---



Due to the interest rate environment over the last several years short term rates have too low to offset the cost of bidding out a guaranteed investment contract. While we do not see this market dynamic changing in the foreseeable future Hilltop does have a fully staffed investment bidding desk we can make available to bid out any GICs. The process would involve developing bid specs particular to the transaction which would then be sent to a list of potential GIC providers known to bid on similar funding requirements. The bid would be set to occur on the same date and time as any lease bids are due so that the GIC earnings could be taken into account to determine any final sizing requirements.

---

**25. Describe the instruction process in detail for escrowed funds in the Acquisition Account pursuant to Trust Indenture.**

At the funding for each series, the aggregate Equipment Cost is wired to the Trustee for the Program (currently US Bank, National Association, Brandon, MS). The Trustee credits each Participating User with its individual Equipment Cost. As a Participating User accepts one or more items of equipment, it completes and submits a Disbursement Request to Shari Goldberg and Vickie Hall. Shari logs in the Disbursement Request and matches the equipment to the Equipment listed in the lease documents. Shari and Vickie both review the Disbursement Request for required documentation, such as title applications, mathematical accuracy, payment instructions, etc. After the review and any follow-up with the Participating User, HilltopSecurities emails the Disbursement Request to the Trustee, where a second review is conducted. When the Trustee is satisfied that the Disbursement Request is accurate, it arranges either for wire transfer or check payment, as directly by the Participating User.

Interest earned on the Acquisition Account is credited to the individual Participating Users.

---

**26. Describe the distribution process the Advisor will use for closing transcripts and post-sale analysis.**

HilltopSecurities will provide closing transcripts and requested post-sale analyses by the method requested. These documents are frequently provided electronically; other times by physical delivery.

---

**27. Provide an example of the post-sale analysis report, referencing past similar work.**

Upon request, HilltopSecurities can provide a post-sale analysis summarizing the important details of the transaction. We have done this for many of our clients. Some clients like a simple, short synopsis of the transaction to present to their Board or Council, others like a more detailed approach. We can tailor the Program's post-sale analysis report to meet the Programs desires. An example of a post-sale analysis report we have done recently can be found in this **Tab 7**.

---

**28. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Bond and Tax Counsel? Please describe.**

Yes, HilltopSecurities can assist the Office in the development of a solicitation for Bond and Tax Counsel. We reviewed and commented on drafts of a recent solicitation for special tax counsel, as requested by DFA.

---

**29. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Trustee? Please describe.**

Yes, HilltopSecurities can assist the Office in the development of a solicitation for Trustee. Although it has been several years ago, we reviewed and commented on drafts of DFA's solicitation for Trustee for the Programs.

---

**30. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.**

Please refer to our answer to the identical question in **Tab 7, Item 1**.

---

**31. Provide a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects.**

This should include any additional forms, records, or approvals which must be considered for items (a) – (d). Rate the Offerors' general knowledge of issues which have or may develop under the Programs.

Please refer to our answer to the identical question in **Tab 7, Item 7**.

---

**32. Offerors must submit a complete description of the method or methods that will be used to obtain funding.**

Please refer to our answer to the identical question in **Tab 7, Item 11**.

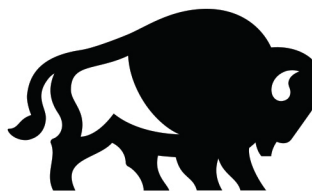


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## Sample Equipment Questionnaire

1. Contact information:
  - a. Contact name:
  - b. School/Community College District
  - c. Phone Number
  - d. E-Mail address
2. Equipment description: Please describe the equipment to be purchased. Include, as applicable, the equipment name, vendor, year/make/model, quantity to be ordered, and cost. Please be as specific as possible.
3. Explain why the equipment is essential to carrying out the mission of the District. List any benefits that will be achieved with the new equipment and any limitations of existing equipment.
4. Is the equipment replacing/upgrading current equipment? If so, is the existing equipment being disposed of, traded in, or used by another area within the District? If the existing equipment will be used by another area within the District, please give a brief description of the existing equipment.
5. If applicable, list other departments that will utilize the equipment to be acquired.
6. How will the District benefit from the new equipment?
7. For vehicle purchases only: Please provide the following information.
  - a. Who provides maintenance on the vehicle?
  - b. Does the District maintain a formal vehicle replacement policy?
  - c. Who operates the vehicle?
  - d. Will the vehicle be parked overnight on employee property?
  - e. Is the vehicle replacing a current vehicle? Describe the limitations of the current vehicle and benefits of replacement.
  - f. Does the District self-insure for property loss or is insurance provided by third party commercial insurance coverage?

# HilltopSecurities



A Hilltop Holdings Company<sup>SM</sup>

## Hilltop Securities Inc.

**Financial Statements and Supplemental Schedules**

**Pursuant to Rule 17a-5 of the**

**Securities and Exchange Commission**

**For the Year Ended December 31, 2020**

**With Report of Independent Registered Public Accounting Firm**

This report is deemed CONFIDENTIAL in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934  
A statement of financial condition, compliance report and examination report,  
bound separately, have been filed with the  
Securities and Exchange Commission  
simultaneously herewith as a Public Document.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2023
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2020 AND ENDING December 31, 2020  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500

(No. and Street)

Dallas

TX

75270

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal

214-859-1026

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers, LLP

(Name - if individual, state last, first, middle name)

2121 N. Pearl Street

Dallas

TX

75201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

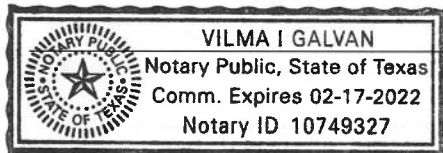
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, M. Bradley Wings, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 2020, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_



Vilma I Galvan  
Notary Public

M. Bradley Wings  
Signature  
President and Chief Executive Officer  
Title

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**Hilltop Securities Inc.**  
**Index**  
**Confidential Treatment Requested**  
**December 31, 2020**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Hilltop Securities Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the “Company”) as of December 31, 2020, and the related statements of income, of changes in stockholder’s equity, of cash flows, and of changes in liabilities subordinated to claims of general creditors for the year then ended, including the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplemental Information***

The accompanying Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934 and CFTC Regulation 1.17, Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934, Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934, and Computation for Determination of PAB Account Reserve Requirements of Brokers and Dealers Under Rule 15c3-3 of the Securities Exchange Act of 1934 as of December 31, 2020 (collectively, the “supplemental information”) has been subjected to audit procedures performed in conjunction with the audit of the Company’s financial statements. The supplemental information is the responsibility of the Company’s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our



opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*  
February 26, 2021

We have served as the Company's or its predecessor's auditor since 2013.

**Hilltop Securities Inc.**  
**Statement of Financial Condition**  
**Confidential Treatment Requested**  
**December 31, 2020**

*(dollars in thousands, except par and redemption values)*

**Assets**

Cash	\$	39,858
Assets segregated for regulatory purposes		290,357
Receivable from brokers, dealers and clearing organizations		1,677,223
Receivable from clients, net of allowance of \$213		268,685
Securities owned, at fair value		688,303
Securities purchased under agreements to resell		80,319
Goodwill		7,008
Customer intangibles, net of accumulated amortization of \$13,306		3,494
Operating lease right-of-use assets		17,925
Fixed assets, at cost, less accumulated depreciation of \$24,867		18,427
Deferred tax asset, net		13,767
Other assets and receivables, net of allowance of \$4,327 (including \$4,743 due from affiliates)		67,810
Total assets	\$	<u>3,173,176</u>

**Liabilities and Stockholder's Equity**

Short-term borrowings	\$	-
Payable to brokers, dealers, and clearing organizations (including \$457 due to affiliate)		1,368,852
Payable to clients (including \$300 clearing deposit due to affiliate)		497,170
Drafts payable		18,176
Securities sold, not yet purchased, at fair value		79,767
Securities sold under agreements to repurchase		237,856
Commercial paper		277,617
Operating lease liabilities		22,961
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including \$17,189 due to affiliates)		201,785
Total liabilities		<u>2,746,184</u>

**Stockholder's equity:**

Series A preferred stock, \$20 par value, \$1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of \$1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of \$1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		295,770
Retained earnings		131,219
Total stockholder's equity		<u>426,992</u>
Total liabilities and stockholder's equity	\$	<u>3,173,176</u>

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Statement of Income**  
**Confidential Treatment Requested**  
**Year Ended December 31, 2020**

---

*(in thousands)*

Revenues:

Net gains on principal transactions	\$	203,048
Investment banking, advisory and administrative fees		141,630
Interest		93,954
Commissions		82,344
Net revenues from clearing operations		12,757
Other		<u>11,964</u>
Total revenues		<u>545,697</u>

Expenses:

Commissions and other employee compensation	279,846
Interest	55,771
Occupancy, equipment and computer service costs	34,305
Communications	14,458
Floor brokerage and clearing organization charges	8,299
Advertising and promotional	4,084
Other	<u>39,296</u>
Total expenses	<u>436,059</u>

Income before income tax expense	109,638
----------------------------------	---------

Income tax expense	<u>25,624</u>
Net income	<u>\$ 84,014</u>

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Statement of Changes in Stockholder's Equity**  
**Confidential Treatment Requested**  
**Year Ended December 31, 2020**

---

*(dollars in thousands)*

	<b>Class A Voting Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at December 31, 2019	2,820	\$ 3	\$ 290,015	\$ 100,664	\$ 390,682
Net income	-	-	-	84,014	84,014
Accumulated adjustment on CECL implementation, <b>Note 2</b>	-	-	-	(859)	(859)
Dividend to Hilltop Securities Holdings LLC	-	-	-	(52,600)	(52,600)
Capital Contribution from Hilltop Securities Holdings LLC	-	-	3,400	-	3,400
Restricted stock plan	-	-	2,355	-	2,355
Balance at December 31, 2020	<u>2,820</u>	<u>\$ 3</u>	<u>\$ 295,770</u>	<u>\$ 131,219</u>	<u>\$ 426,992</u>

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Statement of Cash Flows**  
**Confidential Treatment Requested**  
**Year Ended December 31, 2020**

---

*(in thousands)*

**Cash flows from operating activities:**

Net income	\$ 84,014
Adjustments to reconcile net income to net cash provided by operating activities:	
Deferred income tax benefit	(1,461)
Depreciation and amortization	6,336
Lease expense	8,485
Loss on sale/write-off of fixed assets	296
Compensation expense for restricted stock	2,477
CECL Provision	488
Accretion expense on discount on commercial paper	3,866
Changes in operating assets and liabilities:	
Receivable brokers, dealers and clearing organizations	429,083
Receivable client, net	48,256
Securities owned, at fair value	(4,510)
Securities purchased under agreements to resell	(21,288)
Other assets	(24,988)
Payable brokers, dealers and clearing organizations	(237,122)
Payable clients	84,988
Drafts payable	(3,135)
Securities sold, not yet purchased, at fair value	35,950
Accrued expenses and other liabilities	38,322
Net cash provided by operating activities	<u>450,057</u>

**Cash flows from investing activities:**

Purchase of fixed assets	<u>(6,265)</u>
Net cash used in investing activities	<u>(6,265)</u>

**Cash flows from financing activities:**

Payments on short-term borrowings	(3,922,000)
Cash proceeds on short-term borrowings	3,811,000
Issuance of commercial paper	971,919
Maturity of commercial paper	(717,424)
Payments on notes payable to Hilltop Securities Holdings LLC	(27,402)
Dividend to Hilltop Securities Holdings LLC	(52,600)
Payments on securities sold under agreements to repurchase	(348,795)
Capital contribution from Hilltop Securities Holdings LLC	3,400
Net cash used in financing activities	<u>(281,902)</u>

Net change in cash	161,890
Cash and restricted cash at beginning of year	<u>168,325</u>
Cash and restricted cash at end of year	<u>\$ 330,215</u>

*(continued)*

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Statement of Cash Flows**  
**Confidential Treatment Requested**  
**Year Ended December 31, 2020**

---

*(continued)*

**Reconciliation of Cash and Restricted Cash to Statement of Financial Condition**

Cash	\$	39,858
Assets segregated for regulatory purposes		<u>290,357</u>
Total cash and restricted cash	\$	<u>330,215</u>

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$	<u>53,706</u>
Cash paid for taxes, net of refunds		<u>33,451</u>

**Supplemental disclosure of non-cash activities:**

Forfeitures of restricted stock awards	\$	<u>122</u>
Right-of-use assets obtained in exchange for new lease obligations		<u>11,601</u>
Early termination of right-of-use asset		<u>686</u>

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Statement of Changes in Liabilities Subordinated to Claims of General Creditors**  
**Confidential Treatment Requested**  
**Year Ended December 31, 2020**

---

*(in thousands)*

Subordinated borrowings at December 31, 2019	\$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2020	\$	<u>42,000</u>

The accompanying notes are an integral part of these financial statements.

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**Confidential Treatment Requested**  
**December 31, 2020**  
*(dollars in thousands, except par and redemption values)*

---

**1. Organization**

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker-dealer, a registered investment advisor, a member of the Financial Industry Regulatory Authority ("FINRA") and a member of the Securities Investor Protection Corporation ("SIPC"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker-dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

**2. Summary of Significant Accounting Policies**

**Securities Transactions**

Proprietary securities transactions are recorded on trade date. Clients' securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis, which is discussed in detail under the Revenue Recognition accounting policy.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management. The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized gains or losses of securities owned is credited or charged to operations and is included in net gains on principal transactions in the statement of income. Interest income is recorded on these securities when earned.

The net receivable or payable arising from unsettled trades is reflected in receivable from or payable to brokers, dealers, and clearing organizations in the statement of financial condition.

**Fixed Assets and Depreciation**

Fixed assets are comprised of furniture and equipment (\$30,969) and leasehold improvements (\$12,325) which are stated at cost, less accumulated depreciation. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

**Goodwill and Customer Intangibles**

Goodwill represents the excess of cost over the fair value of the net assets acquired. The Company performs required annual impairment tests of its goodwill as of October 1st. The goodwill impairment test requires the Company to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of the Company based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**Confidential Treatment Requested**  
**December 31, 2020**  
*(dollars in thousands, except par and redemption values)*

---

trading multiples of the Company's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the Company, which includes goodwill. If the estimated fair value is less than the carrying value, the Company recognizes an impairment charge for the amount by which the carrying amount exceeds the Company's fair value; however, the loss recognized will not exceed the total amount of goodwill recorded.

At October 1, 2020, the Company determined that the estimated fair value of the Company exceeded its carrying value. As a result, the Company concluded that the Company's goodwill was not impaired.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of SWS Group, Inc., the former parent of the Company, with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the year's digits.

The Company determined that no impairment for the Company's intangible assets was necessary during the year ended December 31, 2020.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2020 is as follows:

2021	\$	958
2022		786
2023		614
2024		441
2025		278
Thereafter		417
	\$	<u>3,494</u>

**Resale and Repurchase Agreements**

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the statement of financial condition in other liabilities and other assets, respectively.

**Leases**

The Company determines if an arrangement is a lease at inception. Operating leases with a term of greater than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's statement of financial condition. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Leases of low-value assets are assessed on a lease-by-lease basis to determine the need for statement of financial condition capitalization.

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ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent the future rental expenses associated with operating leases, and the incremental borrowing rates are based on publicly available interest rates. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rental expense for lease payments is recognized on a straight-line basis over the lease term and is included in occupancy, equipment and computer service costs within the statement of income.

**Internal Use Software**

In August 2018, Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include internal-use software licenses). On January 1, 2020, the Company adopted the provisions of ASU 2018-15. As a result, the Company's service contracts in a cloud computing arrangement (hosting arrangement) are capitalized according to policy, amortized over the term of the hosting arrangement and included in the statement of financial condition in other assets.

**Securities Borrowing and Lending Activities**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the statement of financial condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the statement of income in interest revenue and interest expense, respectively.

**Drafts Payable**

In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

**Revenue Recognition**

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in

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amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Net gains on principal transactions and interest revenue are not within the scope of ASC 606.

*Significant Judgments*

Revenue from contracts with customers includes commission income and fees from investment banking and asset management services. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; whether revenue should be presented gross or net of certain costs; and whether constraints on variable consideration should be applied due to uncertain future events.

*Investment Banking, Advisory and Administrative Fees*

*Public Banking*

Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis and providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

*Financial advisory*

Revenue from financial advisory service contracts is earned from services related to bond issuances. The fee is either fixed or calculated based on the par value of the bond issuance. Revenue is recognized when the performance obligation for the transaction is satisfied, which is the bond issuance date.

*Retainer*

Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions that may include the issuance of debt. The fees are fixed, and the performance obligation is satisfied over time. The fees are recognized as services are being provided over the service period notated in the customer contract. Any up-front payments are deferred until recognized and were not material at December 31, 2020.

*Consulting*

Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, which is the delivery of bonds, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer, at the closing date of the transaction.

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Continuing disclosure

Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. These amounts are generally recognized at the point in time that the performance under the arrangement is completed, which is the issuance of the report.

Placement

Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. These amounts are generally recognized at the point in time that the performance under the arrangement is completed, at the closing date of the transaction.

Administration

The Company provides administrative, marketing, and participant services for investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the monthly net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

*Underwriting*

The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions, as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

*Money Market and Bank-Insured Fund Fees*

The company earns revenue for placing clients' deposits in money market fund and brokerage sweep programs with third-party and affiliate banks. The amounts earned from these funds and banks are impacted by short-term interest rates. The performance obligations with the funds and financial institutions that participate in these programs are considered a series of distinct services that are substantially the same and are satisfied each day over the contract term. The revenue is earned daily and settled monthly based on a rate applied, as a percentage, of the deposits placed.

*Managed Money*

The Company receives a management fee in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the

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fees are not constrained and are recognized as revenue during the period in which the services are provided.

*Structured housing and products*

The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to bond issuances. The Company also assists customers in finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. These fees are generally recognized at the point in time that performance under the arrangement is completed, which is the closing date of the transaction.

Commissions

*Brokerage*

The Company buys and sells securities on behalf of its customers. Each time a customer enters a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*12b-1*

As a mutual fund distributor, the Company earns 12b-1 fees for marketing and distribution of such funds to its customers. The Company acts both directly as a mutual fund distributor for mutual funds that they directly contract with, commonly known as “direct mutual funds” and indirectly through a mutual fund service provider. The amount of distribution fees revenue is calculated based on a fixed rate, as a percentage, of the net asset value of the funds and recognized when the Company determines that it is probable that a significant reversal will not occur. The Company believes the performance obligation is satisfied at the time of each individual sale. However, the Company has determined that the distribution fees are variably constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts from factors outside of the Company’s control. These factors include, but are not limited to, changes in net asset value of the funds due to market forces that cannot be reasonably estimated and client behavior, such as how long the shareholder will hold the investment in the fund. Amounts earned are collected monthly or quarterly. Any amounts not collected as of year-end are accrued and reported in other assets in the statement of financial condition. No material amounts were determined to be receivable at December 31, 2020.

Net Revenues from Clearing Operations

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. (“HTIN”), an affiliate and charges fees for its services.

Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts.

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The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time, as the services performed are unique to each correspondent broker and recognized on a monthly basis.

***Other Revenue***

***Mutual fund services fee***

The Company has contracted with a mutual fund provider to perform mutual fund clearing services for the Company, and in return, the Company, as an introducing broker-dealer, will sell and/or distribute securities on the funds'/distributors' behalf, in exchange for commissions and fees. The mutual fund provider pays to the Company a fee for services rendered by the Company. These services include maintenance, shareholder communications, transactional services and Customer tax information returns and reports filings. Revenue for the mutual fund services fees is variable in nature and predicated on the initial mutual fund transaction with the Company's customer. The Company has determined that the shareholder services fees are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the mutual fund is ultimately resolved. The Company is unable to estimate these fees as management has determined that these fees are highly susceptible to factors outside the Company's control and influence. As a result, the Company recognizes the related revenue at a point in time when the fees become calculable. The contracts with the mutual fund service provider govern the payment frequency of the cash remittance to the Company (i.e. monthly or quarterly in arrears) and the payment is due typically between 30 days after month or quarter end, resulting in the recording of the earned fees as other assets on the statement of financial condition until these amounts are received from the mutual funds, if applicable. At December 31, 2020, no material amounts were deemed receivable from the mutual fund service provider.

***Miscellaneous brokerage fees***

Miscellaneous brokerage fees are specific fees contracted by the brokerage customer for services performed by the Company and are charged on a transactional basis. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage*, at the time of the completion of the performance obligation.

***Insurance***

The Company receives commissions from the sale of insurance policies facilitated by Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. Southwest Financial Insurance Agency, Inc., as well as, Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold. The commissions are earned in the form of up-front commissions that are received upon the initial sale to the customer and acceptance of the insurance product by the carrier. Additional commissions are earned from the carriers, based on the commission schedules in place at the time of the initial policy sale, over a stated period of time as long as the Company is the broker-dealer of record and the contract is viable, commonly known as "trails". Based on industry practice, the trails earned follow the sales representative. These trails are variable in nature and the Company has determined that the additional amounts earned, subsequent to those earned on the sale date, are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. Upon acceptance of the insurance product by the carrier, the Company is

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unable to estimate these subsequent trails due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. The Company recognizes the related revenue for the trails as the amounts become known and/or estimable. The contracts with the carriers govern the payment frequency of the trail cash remittance to the Company (i.e. monthly or quarterly in arrears) and the payment is typically due 30 days after month or quarter end, resulting in the recording of earned trails as other assets on the statement of financial condition until these funds are received from the carriers, if applicable. At December 31, 2020, no material amounts were deemed receivable from the insurance carriers.

*Commission Expense*

The Company pays the contracted representative agreed upon trade execution service fees, commonly known as “commission expense,” for the sales of various products, including insurance, mutual funds and stocks. Commission expense is recognized on trade date, the date the commission revenue is recognized for trade execution services. The Company believes that the performance obligation is satisfied on trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer. Trading commissions are collected on settlement date, or monthly or quarterly in arrears as dictated by contractual terms.

For insurance commission trails, 12b-1 fees and shareholder services fees, commission expense is recognized on the date the associated commission revenue is known or calculable.

Commission expense is recorded gross on the statement of income as the Company has determined that it is the principal in regard to the services performed.

*Floor brokerage and clearing organization charges*

Clearing expenses are recorded on a trade-date basis as securities transactions occur.

*Other expenses*

Advisory services from public banking and underwriting costs are shown gross in the statement of income, as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of income.

*Pass-through expenses*

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third-party. As a result, the fees associated with the postage for customer correspondence are netted against the funds received from the customer for this service, which are included in other revenue on the statement of income.

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The following table presents revenue by major source for the year ended December 31, 2020:

**Revenue from contracts with customers**

Investment banking, advisory and administrative fees	
Advisory services--public banking	\$ 68,891
Underwriting fees	24,090
Money market and bank-insured fund fees	20,606
Advisory services--managed money	18,978
Structured housing and products	6,417
Other	2,648
	<u>\$ 141,630</u>

Commissions

Brokerage commissions	\$ 77,554
12b-1 fees	3,237
Other	1,553
	<u>\$ 82,344</u>

Net revenues from clearing operations

\$ 12,757

Other

Mutual fund services fee	\$ 3,745
Miscellaneous brokerage fees	3,160
Insurance income	2,794
Other	2,265
	<u>\$ 11,964</u>

Total Revenue from contracts with customers

\$ 248,695

**Revenue not in scope of ASC 606**

Net gains on principal transactions	\$ 203,048
Interest	93,954
	<u>\$ 297,002</u>

**Total revenues**

\$ 545,697

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**Cash Flow Reporting**

For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the statement of financial condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to \$250. At December 31, 2020, the cash balances included \$39,392 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis.

**Derivative Financial Instruments**

The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. treasury and Eurodollar futures, options and municipal market data ("MMD") rate locks to hedge changes in the fair value of its securities.

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients, which allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures, options and municipal market data rate locks.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options and municipal market data rate locks meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the statement of financial condition with unrealized and realized gains recorded in net gains on principal transactions in the statement of income.

Derivative contracts expose the Company to credit risk, the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Company proves to be of insufficient value to cover the payment obligation.

While derivative receivables expose the Company to credit risk, derivative payables expose the Company to liquidity risk, as the derivative contracts typically require the Company to post cash or securities collateral with counterparties as the fair value of the contracts moves in the counterparties' favor.

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**Income Taxes**

The Company files consolidated federal and state income tax returns with its Parent. The Company provides for income taxes on a separate return basis, except that, under an agreement between the Parent and the Company, tax benefits are recognized for losses to the extent they can be used in the consolidated return. It is the policy of the Parent to reimburse its subsidiaries for any tax benefits recorded. Under a written tax-share agreement, the Parent collects from or refunds to the Company federal and state income taxes determined as if the Company filed separate income tax returns. In certain states, the Company pays and files on a separate company basis. The Company generally settles with the Parent on a quarterly basis for federal and unitary state income taxes estimated tax payments, yearly for the tax provision and yearly when the federal and unitary state tax returns are finalized.

For purposes of these financial statements, income taxes are computed on the benefits-for-loss method. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance.

**Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the

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assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

Recurring basis:

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Securities Owned and Securities Sold, Not Yet Purchased Portfolio and Derivatives (which are included in other assets on the statement of financial condition).***

Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's derivative securities.

Non-recurring basis:

The following methods and assumptions are typically used in estimating the fair value disclosures for financial instruments:

**Cash** — For cash, the carrying amount is a reasonable estimate of fair value.

**Assets Segregated for Regulatory Purposes** — Assets segregated for regulatory purposes may consist of cash and securities with carrying amounts that approximate fair value.

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**Broker-Dealer and Clearing Organization Receivables and Payables** — The carrying amount approximates their fair value.

**Client Receivables and Payables** — The carrying amount approximates their fair value.

**Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase** — Securities purchased under agreements to resell are carried at the amounts at which the securities will subsequently be resold as specified in the agreements. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The carrying amounts approximate fair value due to their short-term nature.

**Other Assets and Receivables** - The carrying amounts of other assets and receivables approximates their fair values.

**Drafts Payable** — The carrying amounts approximate their fair values.

**Commercial Paper** — The carrying amounts approximate fair value due to their short-term nature.

**Subordinated Debt Due to Affiliate** — The carrying amounts approximate fair value. The subordinated debt has no maturity date and may be paid at any time by the Company.

**Accrued Expenses and Other Liabilities** - The carrying amounts of accrued expenses and other liabilities approximates their fair values.

**Allowance for Credit Losses**

In June 2016, FASB issued ASU 2016-13 “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” (“CECL”) which sets forth a “current expected credit loss” model that requires entities to measure all credit losses expected over the life of an exposure (or pool of exposures) for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The FASB has issued various updates, improvements and technical corrections to the standard since the issuance of ASU 2016-13. The new standard, which is codified in ASC 326, replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. The new standard was effective for the Company January 1, 2020. On January 1, 2020, the Company adopted the new CECL standard with a cumulative-effect adjustment that resulted in a decrease to retained earnings of \$899 for the establishment of an allowance for the Company’s broker notes and an increase to retained earnings of \$40 for the establishment of an allowance for other assets – other receivables.

***Receivable from brokers, dealers and clearing organizations***

The Company utilizes the collateral maintenance practical expedient for the broker-dealer and clearing organizations accounts that are included in the “receivable from brokers, dealers and clearing organizations” financial statement line item in the statement of financial condition. The accounts in this financial statement line item are fully secured by securities and are appropriately marked-to-market on a daily basis. As a result, no reserve was recorded on this balance at

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December 31, 2020. The Company's receivables from broker-dealers and clearing organizations also include amounts receivable from unsettled trades, including amounts related to futures and options on futures contracts executed on behalf of customers, amounts receivable for securities failed to deliver, accrued interest receivables and cash deposits. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties and has not experienced a default. As of December 31, 2020, the allowance for credit losses on receivables from broker-dealers and clearing organizations was not material.

***Receivables from Clients***

The allowance for credit losses for receivables from clients includes the allowance for customer margin loan losses and correspondent receivables losses and represents management's estimate of the expected credit losses in the company's margin loan portfolio. The margin loan portfolio is monitored daily by Company personnel and is evaluated on an individual basis using the collateral maintenance practical expedient as described in CECL, with any unsecured or partially unsecured account balances at the end of the period reserved at 100%. The collateral maintenance practical expedient allows the Company to compare the fair value of the collateral of each loan as of the reporting date to loan value. The underlying collateral of the loans to customers and correspondents is marked to market daily and any required additional collateral is collected. The allowance represents the amount of unsecured loan balances at the end of the period. The correspondent receivable account represents the net receivable from correspondents for the financing of the correspondent's securities inventory. The receivable is secured by the securities inventory held in custody by the Company.

***Other assets***

The primary accounts included in other assets financial statement line item of the statement of financial condition that are subject to CECL are broker notes receivable, public finance services receivables, and various miscellaneous receivable amounts. For the broker notes receivable, the Company estimates the allowance for credit losses by considering credit quality indicators, such as historical recoverability of an outstanding broker note balance from employees that left the Company. As such, management uses a loss rate methodology to determine the required reserve. As of December 31, 2020, the reserves were \$3,636. The broker notes receivable represents advances to new brokers that are hired. The broker notes are amortized on a straight-line basis over a period ranging from 5-10 years. These accounts are reserved at 100% if the broker has terminated employment and the advance repayment is in question. Past loss history is used to estimate the reserve required for the actively employed brokers. For the public finance services receivables and various other smaller accounts grouped in other assets, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company has not experienced a default with the counterparties. As a result, the reserves are estimated using a loss rate methodology. These reserves totaled \$691. Total CECL reserves included in the other assets financial statement line item on the statement of financial condition totaled \$4,327 at December 31, 2020.

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***Securities purchased under agreements to resell***

As stated above under *Resale and Repurchase Agreements*, it is the Company's policy to obtain possession of collateral with a fair value equal to or in excess of the principal amount. The collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. As such, the Company evaluated the securities purchased under agreements to resell using the collateral maintenance practical expedient as described in CECL, with any unsecured or partially unsecured account balances at the end of the period reserved at 100%.

At December 31, 2020, the Company had allowances recorded in the statement of financial condition related to the following:

	<b>Balance</b>	
	<b><u>December 31,</u></b>	
	<b><u>2020</u></b>	<b><u>Allowance</u></b>
Receivable from brokers, dealers and clearing organizations	\$ 1,677,223	\$ -
Receivable from clients	268,898	(213)
Other assets:		
Broker notes receivables	12,640	(3,636)
Public finance receivables	4,510	(40)
Other	54,987	(651)
Securities purchased under agreements to resell	80,319	-
	<u>\$ 2,098,577</u>	<u>\$ (4,540)</u>

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The Company has performed an evaluation of subsequent events from January 1, 2021 through February 26, 2021, the date of issuance of the financial statements. There have been no subsequent events that would require recognition and/or disclosure in the financial statements as of December 31, 2020.

**3. Assets Segregated For Regulatory Purposes**

At December 31, 2020, the Company held cash of \$290,357 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

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**4. Receivable from and Payable to Brokers, Dealers and Clearing Organizations**

At December 31, 2020, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

**Receivable:**

Securities borrowed	\$	1,338,855
Correspondent broker/dealers		180,174
Clearing organizations		93,504
Securities failed to deliver		58,244
Other		6,446
	\$	<u>1,677,223</u>

**Payable:**

Securities loaned	\$	1,245,066
Securities failed to receive		61,589
Correspondent broker/dealers		33,570
Trades in process of settlement, net		21,765
Other		6,862
	\$	<u>1,368,852</u>

The Company participates in the securities borrowing and lending business by borrowing and lending securities. Securities borrowed and loaned represent deposits made to or received from other broker-dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker-dealers. Proprietary settled securities amounts relating to transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. Securities owned by customers are held as collateral for receivables. At December 31, 2020, the Company held securities as collateral for the receivables from correspondents with an estimated fair value in the amount of \$331,633. Financing of the correspondent proprietary securities transactions is discussed in **Note 10**, Short-Term Borrowings and Commercial Paper.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

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The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2020:

				<b>Gross amounts not offset in the statement of financial condition</b>		
<b>Description</b>	<b>Gross amounts of recognized assets/liabilities (2)</b>	<b>Gross amounts offset in the statement of financial condition</b>	<b>Net amounts of assets/liabilities presented in the statement of financial condition</b>	<b>Financial instruments (3)</b>	<b>Cash Collateral</b>	<b>Net Amount</b>
Securities borrowed <sup>(1)</sup>	\$ 1,338,855	\$ -	\$ 1,338,855	\$ (1,273,955)	\$ -	\$ 64,900
Securities loaned	1,245,066	-	1,245,066	(1,179,090)	-	65,976

<sup>(1)</sup> The Company repledged \$1,212,421 of securities borrowed in connection with securities lending activities.

<sup>(2)</sup> Securities borrowed and loaned are not presented net on the statement of financial condition.

<sup>(3)</sup> Amounts reflect fair value of underlying collateral.

**Securities Lending Activities.** The Company's securities lending activities includes lending securities for other broker-dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker-dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

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The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2020:

	Remaining Contractual Maturity of the Agreements				
	Overnight and <u>Continuous</u>	Up to 30 <u>days</u>	30-90 <u>days</u>	Greater than 90 <u>days</u>	<u>Total</u>
<b>Securities lending transactions</b>					
Corporate securities	\$ 113	\$ -	\$ -	\$ -	\$ 113
Equity securities	1,244,953	-	-	-	1,244,953
Total borrowings	\$ 1,245,066	\$ -	\$ -	\$ -	\$ 1,245,066
Gross amount of recognized liabilities for securities lending					\$ 1,245,066
Amount related to agreements not included in offsetting disclosure					\$ -

**Money Market Programs.** The Company offers clients money market investments in two funds and the ability to sweep excess cash held in their brokerage accounts and invest in a savings account called Bank Insured Deposits at 29 separate banking institutions, including at the Company's banking affiliate, PlainsCapital Bank ("Bank"). The amounts held in the money market funds are interest bearing and are covered by the SIPC. Clients' assets are subject to coverage thresholds of a maximum of \$500 per client. The swept cash held in client savings accounts are FDIC insured up to \$250.

At December 31, 2020, there was \$1,353,174 invested in the two money market funds and \$2,592,980 was invested in the FDIC insured programs, of which the Bank, held \$700,006.

The amount of excess cash swept these investment products is not reported in the statement of financial condition and is not included in the computation for determination of reserve requirement pursuant to Rule 15c3-3 as client dollars are the obligations of the respective institutions and the money market funds are an investment option that represents customer owned securities.

## **5. Receivable from and Payable to Clients**

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately \$152 and \$3, respectively, at December 31, 2020. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2020, the Company had approximately \$359,355 of client securities under customer margin loans that were available to be pledged, of which the Company had repledged approximately \$32,645 under securities loan agreements.

The Company pays interest on certain customer balances available for reinvestment. The aggregate balance of such funds was approximately \$469,919 at December 31, 2020. During the year ended December 31, 2020, the interest rates paid on these balances ranged from 0.01% to 0.35%. While the

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Company pays interest on these funds at varying rates, the rate paid at December 31, 2020 was 0.01% with the weighted average interest rate paid during the year ended December 31, 2020 was 0.07%.

**6. Securities Owned and Securities Sold, not yet Purchased**

At December 31, 2020, securities owned and securities sold, not yet purchased, both of which were carried at fair value, included the following:

**ASSETS**

**Securities owned:**

U. S. treasury securities	\$	40,491
U. S. government agencies:		
Bonds		40
Residential mortgage-backed securities		335,904
Collateralized mortgage obligations		69,172
Corporate debt securities		62,481
States and political subdivisions		171,573
Private-label issuers		8,571
Options		40
Certificates of deposit		31
	\$	<u>688,303</u>

**LIABILITIES**

**Securities sold, not yet purchased:**

U. S. treasury securities	\$	51,490
Corporate debt securities		25,296
Equity securities		2,981
	\$	<u>79,767</u>

At December 31, 2020, none of the above securities were pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

**7. Derivative Financial Instruments**

The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. Treasury bond, Eurodollar futures and municipal market data, MMD, rate locks to hedge changes in the fair value of its securities.

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As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2020, the Company's derivative positions associated with these activities and the changes in fair value of these derivatives, which are recorded in net gains on principal transactions on the statement of income, for the year ended December 31, 2020 are presented below:

	<b>Notional Amount</b>	<b>Estimated Fair Value</b>
Commitments to purchase TBAs	\$ 2,478,041	\$ 22,311
Commitments to sell TBAs	2,189,479	(12,670)
Interest rate swaps	41,750	(2,123)
U.S. Treasury futures and options	17,400	-

The changes in the fair value of derivatives are presented below:

	<b>Increase (Decrease) in Fair Value of Derivatives</b>
Commitments to purchase and sell TBAs	\$ 9,323
Interest rate swaps	(5,354)
U.S. Treasury futures and options	-
	<u>\$ 3,969</u>

At December 31, 2020, the Company advanced cash collateral totaling \$646 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the statement of financial condition.

The Company records changes in fair value of derivatives in net gains on principal transactions on the statement of income and for the year ended December 31, 2020, the Company had recognized a net increase of \$3,969 in the fair value of the derivatives.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

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The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2020:

Description	Gross amounts of recognized assets/liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Gross amounts not offset in the statement of financial condition		
				Financial instruments	Cash Collateral	Net Amount
Commitments to purchase TBA's \$	22,311	\$ -	\$ 22,311	\$ (22,311)	\$ -	\$ -
Commitments to sell TBA's	12,670	-	12,670	(12,670)	-	-
Interest rate swaps	2,123	-	2,123	(2,123)	-	-

## 8. Fair Value of Financial Instruments

### Recurring Basis:

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivatives as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Securities owned, at fair value</b>				
U. S. treasury securities	\$ 40,491	\$ -	\$ -	\$ 40,491
U. S. government agencies:				
Bonds	-	40	-	40
Residential mortgage-backed securities	-	335,904	-	335,904
Collateralized mortgage obligations	-	69,172	-	69,172
Corporate debt securities	-	62,481	-	62,481
States and political subdivisions	-	171,573	-	171,573
Private-label issuers	-	8,571	-	8,571
Options	-	40	-	40
Certificates of deposit	-	31	-	31
	<u>\$ 40,491</u>	<u>\$ 647,812</u>	<u>\$ -</u>	<u>\$ 688,303</u>
<b>Derivative financial instruments</b>				
Commitments to purchase TBAs	<u>\$ -</u>	<u>\$ 22,311</u>	<u>\$ -</u>	<u>\$ 22,311</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>				
<b>Securities sold, not yet purchased, at fair value</b>				
U. S. treasury securities	\$ 51,490	\$ -	\$ -	\$ 51,490
Corporate debt securities	-	25,296	-	25,296
Equity securities	2,981	-	-	2,981
	<u>\$ 54,471</u>	<u>\$ 25,296</u>	<u>\$ -</u>	<u>\$ 79,767</u>
<b>Derivative financial instruments</b>				
Commitments to sell TBAs	\$ -	\$ 12,670	\$ -	\$ 12,670
Interest rate swaps	-	2,123	-	2,123
	<u>\$ -</u>	<u>\$ 14,793</u>	<u>\$ -</u>	<u>\$ 14,793</u>
<b>Net assets (liabilities)</b>	<u>\$ (13,980)</u>	<u>\$ 630,034</u>	<u>\$ -</u>	<u>\$ 616,054</u>

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the statement of income. There was \$2,965 of unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2020 for the year ended December 31, 2020.

**Non-Recurring Basis:**

The following table presents the carrying values, estimated fair values at December 31, 2020, of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and their classification within the fair value hierarchy:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>FINANCIAL ASSETS</u></b>					
Cash	\$ 39,858	\$ 39,858	\$ -	\$ -	\$ 39,858
Assets segregated for regulatory purposes	290,357	290,357	-	-	290,357
Receivable from brokers, dealers and clearing organizations	1,677,223	93,504	1,583,719	-	1,677,223
Receivable from clients, net of allowance of \$213	268,685	-	268,685	-	268,685
Securities purchased under agreements to resell	80,319	-	80,319	-	80,319
Other assets and receivables	67,810	-	67,810	-	67,810
	<u>\$ 2,424,252</u>	<u>\$ 423,719</u>	<u>\$ 2,000,533</u>	<u>\$ -</u>	<u>\$ 2,424,252</u>

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	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>FINANCIAL LIABILITIES</u></b>					
Payable to brokers, dealers, and clearing organizations	\$ 1,368,852	\$ -	\$ 1,368,852	\$ -	\$ 1,368,852
Payable to clients	497,170	-	497,170	-	497,170
Drafts payable	18,176	-	18,176	-	18,176
Securities sold under agreements to repurchase	237,856	-	237,856	-	237,856
Commercial paper	277,617	-	277,617	-	277,617
Subordinated debt due to affiliate	42,000	-	42,000	-	42,000
Accrued expenses and other liabilities	201,785	-	201,785	-	201,785
	<u>\$ 2,643,456</u>	<u>\$ -</u>	<u>\$ 2,643,456</u>	<u>\$ -</u>	<u>\$ 2,643,456</u>

**9. Securities Purchased/Sold Under Agreements to Resell/Purchase**

At December 31, 2020, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the statement of financial condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 90 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

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The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2020:

Description	Gross amounts of recognized assets/liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Gross amounts not offset in the statement of financial condition		
				Financial instruments <sup>(1)</sup>	Cash Collateral	Net Amount
Reverse repurchase agreements	\$ 80,319	\$ -	\$ 80,319	(79,925)	\$ -	\$ 394
Repurchase agreements	237,856	-	237,856	(237,856)	-	-

<sup>(1)</sup> Amounts reflect fair value of underlying collateral.

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2020:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
Asset backed securities	\$ 110,831	\$ -	\$ 127,025	\$ -	\$ 237,856
Total borrowings	\$ 110,831	\$ -	\$ 127,025	\$ -	\$ 237,856
Gross amount of recognized liabilities for repurchase agreements					\$ 237,856
Amount related to agreements not included in offsetting disclosure					\$ -

## 10. Short-Term Borrowings and Commercial Paper

### Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to \$600,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker-dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (0.09% at December 31, 2020). At December 31, 2020, there were no amounts outstanding under these secured arrangements, which was collateralized by securities held for firm and correspondent broker-dealer accounts valued at \$334,323.

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**Committed lines of credit**

At December 31, 2020, the Company had three committed revolving credit facilities with unaffiliated banks totaling \$250,000. When drawn, the interest rate charged on the outstanding amounts is equal to the federal funds rate plus 100 basis points. The agreements require the Company to maintain a tangible net worth of at least \$170,000. At December 31, 2020, there were no outstanding amounts under the committed revolving credit facilities.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2020, the Company had pledged \$90,894 to support these open customer positions.

**Commercial Paper**

In November 2019 and December 2019, the Company initiated two commercial paper programs, in the ordinary course of its business, of which the net proceeds (after deducting related issuance expenses) from the sale will be used for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes ("CP Notes") can be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, Series 2019-1 CP Notes ("Series 2019-1 CP Notes") and Series 2019-2 CP Notes ("Series 2019-2 CP Notes"), with the maximum amount of senior secured commercial paper notes that may be issued under the programs of \$300,000 and \$200,000, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The discount to maturity is based on an interest factor. The minimum denomination is \$100 with integral multiples of \$1 for Series 2019-1 CP Notes and \$5 for Series 2019-2 CP Notes in excess of this denomination. The minimum issuance amount is \$1,000 for the Series 2019-2 CP Notes, only. The CP Notes are secured by a pledge of collateral owned by the Company, guarantees by the Company, see **Note 17** and the maintenance by the Company of a minimum of \$100,000 in excess regulatory net capital. The Company is required to maintain a level of collateral in a control account held by the indenture trustee that exceeds the principal amount of the CP Notes outstanding by a percentage determined by the type of eligible collateral pledged on any business day. As of December 31, 2020, the weighted average maturity of the CP Notes was 146 days at a rate of 1.23%, with a weighted average remaining life until maturity of 70 days. At December 31, 2020, the amount outstanding under these secured arrangements was \$277,617, which was collateralized by securities held for firm accounts valued at \$296,314.

**11. Note Payable Due to Affiliate and Subordinated Debt Due to Affiliate**

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10-year, \$88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a \$42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of \$111,652, at the time of the contribution, plus interest to be paid to the Parent. The promissory note was paid in full by the Company in August 2020. As such, at December 31, 2020, there was \$42,000 outstanding under the subordinated loan agreement.

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The subordinated debt is available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid, unless approved by FINRA.

**12. Income Taxes**

Income tax expense for the fiscal year ended December 31, 2020, (effective rate of 23.4%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	\$	23,024
State income taxes, net of federal tax benefit		2,945
Non-deductible expenses		487
Share-based compensation benefit		80
Tax-exempt income, net		(775)
Reserve for uncertain tax positions		(40)
Other, net		(97)
	\$	<u>25,624</u>

Income taxes as set forth in the statement of income consist of the following components:

**Federal and state expense/(benefit)**

**Current**

Federal	\$	23,360
State		<u>3,725</u>
		<u>27,085</u>

**Deferred**

Federal	\$	(1,464)
State		<u>3</u>
		<u>(1,461)</u>
Total income tax expense	\$	<u>25,624</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 are presented below:

**Deferred tax assets:**

Compensation and benefits	\$	12,036
Operating lease liabilities		5,356
Realized built-in loss carryforward		2,553
Deferred income		659
Net operating loss carryforward		375
Reserves		50
Other		82
Total gross deferred tax asset		<u>21,111</u>

**Deferred tax liabilities:**

Operating lease assets		(4,181)
Fixed Assets		(1,757)
Intangible assets		(815)
Other		(591)
Total gross deferred tax liability		<u>(7,344)</u>
Net deferred tax asset	\$	<u>13,767</u>

The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2020, the Company had recognized built-in losses ("RBIL") of \$2,553 from the 2015 merger with the Parent. At December 31, 2020, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of \$475. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability. At December 31, 2020, the total amount of gross unrecognized tax benefits was \$858, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was \$678.

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The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

<b>Balance at December 31, 2019</b>	\$	572
Increases related to tax positions taken during a prior year		52
Increases related to tax positions taken during the current year		321
Lapse of applicable statute of limitations		(87)
<b>Balance at December 31, 2020</b>	\$	<u>858</u>

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2020.

With limited exception, the Company is no longer subject to U.S. federal tax examinations for tax years preceding 2017. The Company is open for various state tax examinations for tax years 2016 and later.

The amount of current federal and state taxes receivable from the Parent included in other assets on the statement of financial condition was \$604 and \$98, respectively, at December 31, 2020. The amount of current state taxes payable to the Parent included in other liabilities on the statement of financial condition was \$50 at December 31, 2020.

### **13. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintains minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of \$1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. The Company is also subject to the net capital requirements of the CFTC Regulation 1.17 ("Rule 1.17") and requirements of the National Futures Association, and is required to maintain "adjusted net capital" equal to or in excess of the greatest of \$45 or the amount of net capital required by Rule 15c3-1. At December 31, 2020, the Company had net capital of approximately \$291,228, which is approximately \$284,183 in excess of its minimum net capital requirement of approximately \$7,045 at that date. Additionally, the Rule provides that equity capital may not be withdrawn, or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2020, the Company had net capital of approximately \$273,616 in excess of 5% of aggregate debit items.

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**14. Affiliate Transactions**

The Company clears customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately \$468 for the year ended December 31, 2020 and is recorded in net revenues from clearing transactions on the statement of income. The Company also provides accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of \$50 per year and is recorded in other expenses on the statement of income. Additionally, the Company collects revenues and pays expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from third-party insurance carriers for sales of insurance products facilitated by Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance), at no cost to the Company. For the year ended December 31, 2020, the Company received \$2,794 of insurance fees, which are included in other income in the statement of income. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account at the Bank, (**Note 5**). For the year ended December 31, 2020, the Company received a maintenance fee of \$13,178 on these bank insured funds from the Bank and recorded it in investment banking, advisory and administrative fees on the statement of income.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was \$94 for the year ended December 31, 2020, included in other expense on the statement of income.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the statement of financial condition in the amount of \$12,640. The Company has recorded an allowance, included in other assets in the statement of financial condition, of \$3,636 for terminated relationships and CECL implementation. See discussion of the Company's implementation of CECL in **Note 2**.

The Company is named as the lessee for a lease, which is subleased to the Bank. During the year ended December 31, 2020, the Company received and recorded in other revenue on the statement of income \$26 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2020, the Company paid and recorded in occupancy, equipment and computer service costs on the statement of income \$121 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company \$42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this

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transaction, in January 2016, First Southwest Holdings LLC loaned the Company \$88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2020, the Company paid interest of \$1,857 on the \$42,000 note and \$681 on the \$88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2020, the total Parent and subsidiaries expenses passed through and allocated to the Company were \$13,611, \$10,326 of the total amount allocated to the Company is included in commissions and other employee compensation, \$1,031 of the total amount allocated to the Company is included in occupancy, equipment and computer service costs, and \$2,254 of the total amount allocated to the Company is included in other expense on the statement of income.

On the statement of financial condition, the total receivable includes \$3,995 from First Southwest Holdings LLC and its subsidiaries, \$584 from the Bank and \$164 from Southwest Insurance Agency. The total payable includes \$6,762 to Securities Holdings, \$5,060 to First Southwest Holdings LLC and its subsidiaries, including \$457, which is reported in payable to brokers, dealers, and clearing organizations on the statement of financial condition, \$3,073 to the Parent, \$2,129 to Southwest Insurance Agency, \$621 to HTIN, \$1 to Prime Lending, a wholly owned subsidiary of the Parent and a \$300 clearing deposit to HTIN, which is reported in payable to clients on the statement of financial condition.

## **15. Employee Benefits**

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately \$3,045 and included in commissions and other employee compensation in the statement of income for the year ended December 31, 2020.

Since 2012, the Parent has issued stock-based incentive awards pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"). In July 2020, pursuant to stockholders' approval, the Company adopted the Hilltop Holdings Inc. 2020 Equity Incentive Plan (the "2020" Plan). The 2020 plan serves as successor to the 2012 Plan. The 2012 Plan and the 2020 Plan are referred to collectively as "the Equity Plans." The Equity Plans provide for the grant of nonqualified stock options, stock appreciation rights, restricted stock, ("RSUs"), performance awards, dividend equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent. Shares available for grant under the 2012 Plan that were reserved but not issued as of the effective date of the 2020 Plan were added to the reserves of the 2020 Plan. No additional awards may be made under the 2012 Plan, but the 2012 Plan remains in effect as to outstanding awards. Outstanding awards under the Equity Plans continue to be subject to the terms and conditions of the respective plans. The number of shares authorized for issuance pursuant to awards under the 2020 Plan is 3,650,000 plus any shares that become available upon the forfeiture, expiration, cancellation or settlement in cash awards outstanding under the 2012 Plan as of April 30, 2020. At December 31, 2020, 3,428,547 shares of common stock remained

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available for issuance pursuant to awards granted under the 2020 Plan, excluding shares that may be delivered pursuant to outstanding awards.

The following table summarizes information about non-vested RSU activity:

	<b>RSU</b>	
	<b><u>Outstanding</u></b>	<b><u>Weighted Average Grant Date Fair Value</u></b>
Balances at December 31, 2019	264,820	\$ 22.42
Granted	224,424	22.07
Vested/Released	(46,294)	25.85
Forfeited	(4,195)	21.40
Other adjustments	(6,357)	-
Balances at December 31, 2020	<u>432,398</u>	<u>\$ 22.23</u>

At December 31, 2020, the Company had unrecognized compensation expense related to restricted stock grants of approximately \$5,627. For the year ended December 31, 2020, the Company has recognized compensation expense of \$2,477 for all restricted stock granted to the Company's employees and included in commissions and other employee compensation in the statement of income.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

## **16. Leases**

The Company leases space, primarily for corporate offices, branch facilities and certain equipment under operating lease agreements. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases with the Parent's other subsidiaries and are reflected in the table and information presented below.

Lease rental cost of ROU assets is included within occupancy, equipment and computer services costs in the statements of income. For the year ended December 31, 2020, the total lease expense for those leases not subject to ASC 842 was \$215. The Company does not generally enter into leases that contain variable payments, other than due to the passage of time.

The components of lease costs, including short-term lease costs, are as follows:

Operating lease cost	\$ 9,779
Less: operating lease and sublease income	<u>(1,294)</u>
Net operating lease cost	<u>\$ 8,485</u>

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The Company's weighted average remaining lease term and weighted average discount rate as of December 31, 2020 were 5 years and 4.66%, respectively.

Future minimum lease payments under the leasing standard as of December 31, 2020 are presented below:

	2021	\$	8,678
	2022		5,154
	2023		4,349
	2024		2,577
	2025		1,572
	Thereafter		2,595
Total Minimum lease payments		\$	24,925
Amount representing interest			(1,964)
Present value of minimum lease payments		\$	<u>22,961</u>

## **17. Commitments and Contingencies**

**Underwriting.** Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2020, the Company had no liabilities due under outstanding underwriting arrangements.

**Litigation.** The Company may be involved, in the normal course of business, in legal, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its operations. These include proceedings specific to the Company, as well as proceedings generally applicable to business practices in the industries in which it operates. Uncertain economic conditions, volatility in the financial markets, and significant recently enacted financial reform legislation may increase the likelihood that clients and other persons or regulators may present or threaten legal claims or that regulators increase the scope or frequency of examinations of the Company or the financial services industry generally.

As with other financial services firms, the level of regulatory activity and inquiry concerning the Company's businesses remains elevated. From time to time, the Company receives requests for information from, and/or has been subject to examination or claims by, the SEC, the FINRA, and other governmental and quasi-governmental authorities concerning the Company's business activities and practices. These legal and regulatory inquiries, proceedings and potential disputes are subject to uncertainties and, as such, the Company is unable to predict the ultimate resolution or range of loss that may result. In accordance with applicable accounting standards, the Company establishes an accrued liability for contingent litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. In such cases, there still may be an exposure to loss in excess of any amounts reasonably estimated and accrued. When a loss contingency is not both probable

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and estimable, the Company does not establish an accrued liability, but continues to monitor, in conjunction with any outside counsel handling a matter, further developments that would make such loss contingency both probable and reasonably estimable. Once the Company establishes an accrued liability with respect to a loss contingency, the Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established, and any appropriate adjustments are made each quarter.

**Guarantees.** The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications, provisioned in the Company's client clearing agreements, are entered into in the normal course of business and may expose the Company to off-balance-sheet credit risk. Pursuant to the clearing agreement, the Company is required to reimburse the Company's clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. The Company's customer securities activities are transacted on a delivery versus payment, cash or margin basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customers' or brokers' inability to meet the terms of their contracts. In margin transactions, the Company extends credit to clients collateralized by cash and securities in their account. In the event the customers or brokers fail to satisfy their obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the obligations. The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the customers' financial condition and credit ratings. The Company seeks to control the risk associated with its customer margin transactions by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company also monitors required margin levels daily and, pursuant to its guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

## **18. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company executes, settles and finances various securities transactions that may expose the Company to off-balance sheet risk in the event that a customer or

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counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the account of the Company, use of derivatives to support certain non-profit housing organization clients, clearing agreements between the Company and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

## **19. Preferred Stock**

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of \$20, can be issued to each of up to 100 qualified participants. Qualified participants are broker-dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker-dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of \$1,000 per share.

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**20. Proprietary Accounts of Broker-Dealers (“PAB”) Reserve Requirements**

The Company performs calculations of PAB reserve requirements in accordance with SEC Rule 15c3-3. At December 31, 2020, the Company did not have a PAB reserve requirement and has no amount on deposit.

## **Supplemental Schedules**

**Hilltop Securities Inc.****Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934 and CFTC Regulation 1.17****Confidential Treatment Requested****December 31, 2020***(in thousands)*

Total stockholder's equity from statement of financial condition	\$	426,992
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>42,000</u>
Total capital and allowable subordinated liabilities		<u>468,992</u>
Deductions and /or charges:		
Receivable from affiliates	\$	(4,743)
Fixed assets, net		(18,427)
Securities owned, not readily marketable		(7,377)
Other receivables from broker/dealers and clearing organizations		(3,675)
Other investments, not readily marketable		(2,402)
Other nonallowable assets		(73,642)
Aged fails to deliver		(156)
Aged short security differences		(184)
Other deductions and/or charges		<u>(1,817)</u>
Net capital before haircuts on securities positions		<u>356,569</u>
Haircuts on securities positions		<u>(65,341)</u>
Net capital		291,228
Net capital requirement:		
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ( $\$352,253 \times 2\% = \$7,045$ ) or \$1,000		<u>7,045</u>
Excess net capital	\$	<u><u>284,183</u></u>
Net capital in excess of the greater of 5% of aggregate debit items or 120% of minimum net capital requirement	\$	<u><u>273,616</u></u>

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

**Hilltop Securities Inc.**  
**Supplemental Schedule II – Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934**  
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*(in thousands)*

**Credit balances:**

Free credit balances and other credit balances in customers' security accounts	\$ 516,115
Monies borrowed collateralized by securities carried for the accounts of customers	269
Monies payable against customers' securities loaned	32,645
Customers' securities failed to receive	4,163
Credit balances in firm accounts which are attributable to principal sales to customers	1,809
Market value of short securities and credits in all suspense accounts over 30 calendar days	123
Other	<u>81,016</u>
Total credits	<u>636,140</u>

**Debit balances:**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	268,516
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	3,627
Failed to deliver of customers' securities not older than 30 calendar days	242
Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts	<u>79,868</u>
Total debits	<u>352,253</u>
Less 3% haircut	<u>(10,567)</u>
Total debits	<u>341,686</u>
Excess of total credits over total debits	\$ <u>294,454</u>

Reserve requirement at December 31, 2020:

Amount of cash held in "Reserve Bank Accounts" at December 31, 2020	\$ 290,357
Cash deposit made within required time frames (January 4, 2021)	<u>19,210</u>
Amount of cash held in "Reserve Bank Accounts"	\$ <u>309,567</u>

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

# Hilltop Securities Inc.

## Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934

### Confidential Treatment Requested

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State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2020 for which instructions to reduce to possession or control had been issued as of December 31, 2020 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items		<u>11</u>
Market value	\$	<u><u>49</u></u>

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2020 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items		<u>-</u>
Market value	\$	<u><u>-</u></u>

Note: The above information does not differ materially from the information prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

**Hilltop Securities Inc.****Supplemental Schedule IV – Computation for Determination of PAB Account Reserve Requirements of Brokers and Dealers Under Rule 15c3-3 of the Securities Exchange Act of 1934  
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*(in thousands)***Credit balances:**

Free credit balances and other credit balances in PAB security accounts	\$ 206,482
Monies payable against PAB securities loaned	1,229
PAB securities failed to receive	2,782
Credit balances in firm accounts which are attributable to principal sales to PAB	1,006
Other	<u>14,931</u>
Total PAB credits	<u>226,430</u>

**Debit balances:**

Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	323,986
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver	94,277
Failed to deliver of PAB securities not older than 30 calendar days	<u>472</u>
Total PAB debits	<u>418,735</u>
Excess of total PAB debits over total PAB credits	\$ <u>(192,305)</u>

PAB reserve requirement at December 31, 2020	\$ <u>-</u>
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Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2020 filed with the Financial Industry Regulatory Authority on January 27, 2021.

## Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2020;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2020;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2020; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, M. Bradley Winges, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By:  \_\_\_\_\_

President and Chief Executive Officer

February 26, 2021



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

- (1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2020 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2020 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2020, and
- (4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rules 2231 and 409T of the Financial Industry Regulatory Authority (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2020, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2020, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2020 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.



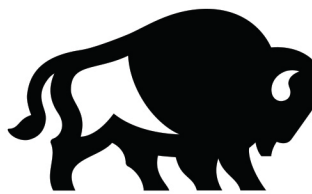
Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

*PricewaterhouseCoopers LLP*

February 26, 2021

# HilltopSecurities



**A Hilltop Holdings Company<sup>SM</sup>**

## **Hilltop Securities Inc.**

**Financial Statements and Supplemental Schedules**

**Pursuant to Rule 17a-5 of the**

**Securities and Exchange Commission**

**For the Year Ended December 31, 2019**

**With Report of Independent Registered Public Accounting Firm**

This report is deemed CONFIDENTIAL in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934  
A statement of financial condition, compliance report and examination report,  
bound separately, have been filed with the  
Securities and Exchange Commission  
simultaneously herewith as a Public Document.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2019 AND ENDING December 31, 2019  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500

(No. and Street)

Dallas TX 75270  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal 214-859-1026

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers

(Name - if individual, state last, first, middle name)

2121 N. Pearl Street Dallas TX 75201  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, M. Bradley Wings, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

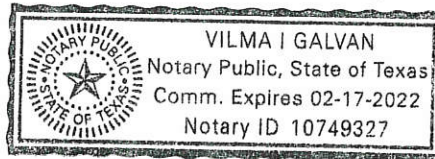
\_\_\_\_\_

M. Bradley Wings  
Signature

President and Chief Executive Officer

Title

Vilma I. Galvan  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

*\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

# Hilltop Securities Inc.

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December 31, 2019

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### **Supplemental Schedules**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Hilltop Securities Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the "Company") as of December 31, 2019, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplemental Information***

The accompanying information contained in Schedules I, II, III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
February 24, 2020

We have served as the Company's or its predecessor auditor since 2013.

**Hilltop Securities Inc.**  
**Statement of Financial Condition**  
**December 31, 2019**

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*(dollars in thousands, except par and redemption values)*

**Assets**

Cash	\$ 10,889
Assets segregated for regulatory purposes	157,436
Receivable from brokers, dealers and clearing organizations	2,106,306
Receivable from clients, net of allowance of \$48	317,107
Securities owned, at fair value	683,793
Securities purchased under agreements to resell	59,031
Goodwill	7,008
Customer intangible, net of accumulated amortization of \$12,176	4,624
Operating lease right-of-use assets	15,769
Fixed assets, at cost, less accumulated depreciation of \$23,172	16,539
Deferred tax asset, net	12,358
Other assets (including \$4,250 due from affiliates)	44,059
Total assets	<u>\$ 3,434,919</u>

**Liabilities and Stockholder's Equity**

Short-term borrowings	\$ 111,000
Payable to brokers, dealers, and clearing organizations (including \$457 due to affiliate)	1,605,974
Payable to clients (including \$300 clearing deposit due to affiliate)	412,182
Drafts payable	21,311
Securities sold, not yet purchased, at fair value	43,817
Securities sold under agreements to repurchase	586,651
Commercial paper	19,260
Notes payable due to affiliate	27,402
Operating lease liabilities	20,796
Subordinated debt due to affiliate	42,000
Accrued expenses and other liabilities (including \$17,222 due to affiliates)	153,844
Total liabilities	<u>3,044,237</u>

Stockholder's equity:

Series A preferred stock, \$20 par value, \$1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding	-
Class A voting common stock of \$1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares	3
Class B nonvoting common stock of \$1 par value; authorized 10,000 shares; none issued	-
Additional paid-in capital	290,015
Retained earnings	100,664
Total stockholder's equity	<u>390,682</u>
Total liabilities and stockholder's equity	<u>\$ 3,434,919</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Operations**  
**Year Ended December 31, 2019**

---

*(in thousands)*

Revenues:	
Net gains on principal transactions	\$ 150,045
Interest	134,848
Investment banking, advisory and administrative fees	122,890
Commissions	70,200
Net revenues from clearing operations	12,701
Other	10,150
Total revenues	<u>500,834</u>
Expenses:	
Commissions and other employee compensation	236,603
Interest	85,253
Occupancy, equipment and computer service costs	34,622
Communications	14,248
Advertising and promotional	6,980
Floor brokerage and clearing organization charges	6,925
Other	32,140
Total expenses	<u>416,771</u>
Income before income tax expense	84,063
Income tax expense	<u>19,470</u>
Net income	<u>\$ 64,593</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Statement of Stockholder's Equity**  
**Year Ended December 31, 2019**

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*(dollars in thousands)*

	<b>Class A Voting Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at December 31, 2018	2,820	\$ 3	\$ 288,349	\$ 45,771	\$ 334,123
Net income	-	-	-	64,593	64,593
Dividend to Hilltop Securities Holdings Inc.	-	-	-	(9,700)	(9,700)
Restricted stock plan	-	-	1,666	-	1,666
Balance at December 31, 2019	<u>2,820</u>	<u>\$ 3</u>	<u>\$ 290,015</u>	<u>\$ 100,664</u>	<u>\$ 390,682</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

# Hilltop Securities Inc.

## Statement of Cash Flows

### Year Ended December 31, 2019

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(in thousands)

#### Cash flows from operating activities:

Net income	\$ 64,593
Adjustments to reconcile net income to net cash provided by operating activities:	
Deferred income tax benefit	(3,132)
Depreciation and amortization	7,171
Lease expense	8,342
Loss on sale of fixed assets	241
Compensation expense for restricted stock	1,895
Provision for doubtful accounts	(74)
Accretion expense on discount on commercial paper	14
Changes in operating assets and liabilities:	
Brokers, dealers and clearing organizations accounts, net	(35,398)
Client accounts, net	(29,509)
Securities owned, at fair value	53,756
Securities purchased under agreements to resell	2,580
Other assets	8,965
Drafts payable	(2,411)
Securities sold, not yet purchased	(37,850)
Accrued expenses and other liabilities	41,319
Net cash provided by operating activities	<u>80,502</u>

#### Cash flows from investing activities:

Purchase of fixed assets	(5,418)
Proceeds from sale of fixed assets	3
Net cash used in investing activities	<u>(5,415)</u>

#### Cash flows from financing activities:

Payments on short-term borrowings	(3,958,500)
Cash proceeds on short-term borrowings	3,880,500
Issuance of commercial paper	19,246
Payments on loans payable to Hilltop Securities Holdings Inc.	(39,500)
Dividend to Hilltop Securities Holdings Inc.	(9,700)
Cash proceeds on securities sold under agreements to repurchase	53,210
Net cash used in financing activities	<u>(54,744)</u>

Net change in cash	20,343
Cash and restricted cash at beginning of year	147,982
Cash and restricted cash at end of year	<u>\$ 168,325</u>

(continued)

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2019**

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*(continued)*

**Reconciliation of Cash and Restricted Cash to Statement of Financial Condition**

Cash	\$	10,889
Assets segregated for regulatory purposes		157,436
Total cash and restricted cash	\$	<u>168,325</u>

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$	<u>85,564</u>
Cash paid for taxes, net of refunds		<u>16,461</u>

**Supplemental disclosure of non-cash activities:**

Forfeitures of restricted stock awards	\$	<u>229</u>
Right-of-use assets obtained in exchange for new lease obligations		<u>3,044</u>
Early termination of right-of-use asset		<u>(1,032)</u>
Implementation of ASU 842 - leases		<u>26,877</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Statement of Changes in Subordinated Borrowings**  
**Year Ended December 31, 2019**

---

*(in thousands)*

Subordinated borrowings at December 31, 2018	\$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2019	\$	<u>42,000</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**  
*(dollars in thousands, except par and redemption values)*

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**1. Organization**

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company's revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

**2. Summary of Significant Accounting Policies**

**Securities Transactions**

Proprietary securities transactions are recorded on trade date, as if they had settled. Clients' securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis, which is discussed in detail under Revenue Recognition.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management. The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the statement of operations. Interest income is recorded on these securities when earned.

**Fixed Assets and Depreciation**

Fixed assets are comprised of furniture and equipment (\$31,615) and leasehold improvements (\$8,096) which are stated at cost, less accumulated depreciation. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

**Goodwill and Customer Intangible**

The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**  
*(dollars in thousands, except par and redemption values)*

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the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

At October 1, 2019, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of the Company with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the year's digits.

The Company determined that no impairment for the Company's intangible assets was necessary upon their evaluation on October 1, 2019.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2019 is as follows:

2020	\$	1,130
2021		958
2022		786
2023		614
2024		441
Thereafter		695
	\$	<u>4,624</u>

**Resale and Repurchase Agreements**

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the statement of financial condition in other liabilities and other assets, respectively.

**Leases**

In February 2016, the Financial Accounting Standards Board issued the Leasing Standard, which is codified in Accounting Standards Update ("ASU") 842, *Leases*, and is intended to increase transparency and comparability among organizations and require lessees to record a right-of-use ("ROU") asset and a liability representing the obligation to make lease payments for long-term leases. The Company adopted the standard on January 1, 2019, using the modified retrospective transition under the option to apply the

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**  
*(dollars in thousands, except par and redemption values)*

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leasing standard at its effective date without adjusting the prior period comparative financial statements. The Company elected the package of practical expedients to not reassess: (i) whether any existing contracts are or contain a lease, (ii) the lease classification of any existing leases and (iii) initial direct costs related to existing leases. The Company also elected to apply an additional practical expedient to include both the lease and non-lease components of all leases as a single component and account for it as a lease. On January 1, 2019, the Company recorded operating lease liabilities of \$26,877 and ROU assets of \$21,317, which included the write-off of \$5,560 of deferred rent, upon adoption of the leasing standard. The lease liabilities (at their present value) represent predominantly all of the future minimum lease payments required under operating leases.

The Company determines if an arrangement is a lease at inception. Operating leases with a term of greater than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's statement of financial condition. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Leases of low-value assets are assessed on a lease-by-lease basis to determine the need for statement of financial condition capitalization.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent the future rental expenses associated with operating leases, and the incremental borrowing rates are based on publicly available interest rates. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. Rental expense for lease payments is recognized on a straight-line basis over the lease term and is included in occupancy and equipment, net within the statements of operations.

**Securities Borrowing and Lending Activities**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the statement of financial condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the statement of operations in interest revenue and interest expense, respectively.

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**  
*(dollars in thousands, except par and redemption values)*

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**Drafts Payable**

In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

**Revenue Recognition**

Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Net gains on principal transactions, interest revenue and money market management fees are not within the scope of ASC 606.

*Investment Banking, Advisory and Administrative Fees*

*Public Banking*

Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis and providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

Financial advisory

Revenue from financial advisory service contracts is earned from services related to the bond issues. The fee is either fixed or calculated based on the par value of the bond. Revenue is recognized when the performance obligation for the transaction is satisfied, delivery of the bonds.

Retainer

Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions that may include the issuance of debt. The fees are fixed, satisfied over time and recognized over the service period notated in the customer contract. Any up-front payments are deferred until recognized and were not material at December 31, 2019.

Consulting

Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, date of issuance, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer. For consulting fees that are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the consulting services.

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2019**  
*(dollars in thousands, except par and redemption values)*

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Continuing disclosure

Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. For the fees that are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the continuing disclosure services. Revenue from continuing disclosure fees are recognized at a point in time when the work is completed.

Placement

Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. Revenue is recognized when the performance obligation for the transaction is satisfied, date of debt issuance.

Administration

The Company provides administrative, marketing, and participant services for three investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

*Managed Money*

The Company receives a management fee in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the fees are not constrained and are recognized as revenue during the period in which the services are provided.

*Underwriting*

The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions, as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

*Structured housing and products*

The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to the bond issue. The Company also assists customers in

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finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the services.

*Commissions*

*Brokerage*

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*Soft Dollar*

The Company provides soft dollar arrangements to customers. In these arrangements, the Company provides research to customers in return for a certain volume of trade order flow to the Company. These types of transactions are governed by Section 28(e) of the Exchange Act, which allows the paying of a brokerage commission if the manager determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided. Management has identified two separate performance obligations with these arrangements, trade execution and research. The trade execution services are recognized on a consistent basis as noted above in *Commissions-Brokerage*. The recognition of research services revenue is based on the services specified by the customer contract. These services could be over a period of time and recognized as such or a one time service that is recognized at the time of completion of the service. Management has determined that the Company is an agent in the research transactions performed for customers. The Company contracts with a third-party to provide customers' requested research services. This third-party is primarily responsible for fulfilling the terms of the contracted research services. The Company does not have control of the research before it is distributed to the customer. As an agent, the Company records the fees earned for facilitating the transfer of the research services as revenue and presents them net in the statement of operations.

*12b-1*

As a mutual fund distributor, the Company incurs distribution costs and receives 12b-1 fees for marketing and distribution of mutual funds from the fund as compensation for these costs. The fees received from the fund are based on the assets/positions held by the Company at the end of the specified period notated in the contract. As these fees are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon receipt of funds from the mutual fund providers. Revenue from 12b-1 fees are recognized at a point in time when the fees become known, which is dictated by the contract payout terms, (i.e. weekly, bi-monthly, monthly and quarterly.)

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*Net Revenues from Clearing Operations*

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services.

Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts. The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time, as the services performed are unique to each correspondent broker and recognized on a monthly basis.

*Other Revenue*

*Brokerage custody fees*

Brokerage custody fees are specific fees contracted by the brokerage customer for services performed by the Company. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage*.

*Insurance*

The Company receives commissions from the sale of insurance policies. The commissions are received in the form of up front commissions that are received upon the initial sale of the insurance product to the customer. Additional commissions are received over a stated period of time as long as the Company is the broker/dealer of record and the contract is viable. These commissions are variable in nature and the Company has determined that the additional commissions received subsequent to those received on the sale date are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. The Company is unable to estimate these subsequent commissions due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. As a result, these amounts are recognized as revenue upon receipt of payment from the insurance carriers.

*Contract Costs*

Advisory services from public banking and underwriting costs are shown gross in the statement of operations, as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of operations.

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third party. As a result, the fees associated with the postage for customer correspondence is netted against the funds received from the customer for this service, which are included in other revenue on the statement of operations.

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The following table presents revenue by major source for the year ended December 31, 2019:

**Revenue from contracts with customers**

Investment banking, advisory and administrative fees	
Advisory services--public banking	\$ 56,442
Advisory services--managed money	16,212
Underwriting fees	13,496
Structured housing and products	5,090
Other	2,910
	<u>\$ 94,150</u>
Commissions	
Brokerage commissions	\$ 62,900
Soft dollar	3,741
12b-1 fees	3,559
	<u>\$ 70,200</u>
Net revenues from clearing operations	\$ 12,701
Other	
Brokerage custody fees	\$ 4,775
Insurance income	2,693
Other	2,682
	<u>\$ 10,150</u>
Total Revenue from contracts with customers	<u>\$ 187,201</u>

**Revenue not in scope of ASC 606**

Net gains on principal transactions	\$ 150,045
Interest	134,848
Investment banking, advisory and administrative fees - money market fees	28,740
	<u>\$ 313,633</u>
<b>Total revenues</b>	<u><u>\$ 500,834</u></u>

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**Cash Flow Reporting**

For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the statement of financial condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to \$250. At December 31, 2019, the cash balances included \$9,772 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

**Derivative Financial Instruments**

The Company uses various derivative financial instruments to mitigate interest rate risk. The Company uses forward commitments to both purchase and sell mortgage backed securities to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, the Company uses U.S. treasury and Eurodollar futures, options and municipal market data, or MMD, rate locks to hedge changes in the fair value of its securities.

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients, which allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party. The Company mitigates interest rate risk and earnings volatility by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures, options and municipal market data rate locks.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options and municipal market data rate locks meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the statement of financial condition with unrealized and realized gains recorded in net gains on principal transactions in the statement of operations.

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**Income Taxes**

The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance.

**Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.

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- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative securities).***

Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's derivative securities.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The Company has performed an evaluation of subsequent events from January 1, 2020 through February 24, 2020, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2019.

**3. Assets Segregated For Regulatory Purposes**

At December 31, 2019, the Company held cash of \$157,436 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

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**4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations**

At December 31, 2019, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

**Receivable:**

Securities borrowed	\$	1,634,782
Correspondent broker/dealers		264,201
Clearing organizations		61,825
Securities failed to deliver		18,726
Trades in process of settlement, net		104,922
Other		21,850
	\$	<u>2,106,306</u>

**Payable:**

Securities loaned	\$	1,555,964
Securities failed to receive		8,568
Correspondent broker/dealers		37,036
Other		4,406
	\$	<u>1,605,974</u>

The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2019, the Company held collateral for the receivables from correspondents in the amount of \$370,993.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

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The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2019:

			Gross amounts not offset in the statement of financial condition			
Description	Gross amounts of recognized assets/liabilities (2)	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments (3)	Cash Collateral	Net Amount
Securities borrowed	\$ 1,634,782	\$ -	\$ 1,634,782	\$ (1,586,821)	\$ -	\$ 47,961
Securities loaned <sup>(1)</sup>	1,555,964	-	1,555,964	(1,509,933)	-	46,031

<sup>(1)</sup>Under securities lending agreements, the Company repledged \$1,510,436.

<sup>(2)</sup>Securities borrowed and loaned are not presented net on the statement of financial condition.

<sup>(3)</sup>Amounts reflect fair value of underlying collateral.

**Securities Lending Activities.** The Company's securities lending activities includes lending securities for other broker/dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker/dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

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The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2019:

	<b>Remaining Contractual Maturity of the Agreements</b>				
	<b>Overnight and Continuous</b>	<b>Up to 30 days</b>	<b>30-90 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Securities lending transactions</b>					
Corporate securities	\$ 120	\$ -	\$ -	\$ -	\$ 120
Equity securities	1,555,844	-	-	-	1,555,844
<b>Total borrowings</b>	<b>\$ 1,555,964</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,555,964</b>
Gross amount of recognized liabilities for securities lending					\$ 1,555,964
Amount related to agreements not included in offsetting disclosure					\$ -

## **5. Receivable From and Payable to Clients**

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately \$1,542 and \$5, respectively, at December 31, 2019. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2019, the Company had approximately \$435,097 of client securities under customer margin loans that were available to be pledged, of which the Company had repledged approximately \$45,528 under securities loan agreements.

The Company pays interest on certain customer "free credit" balances available for reinvestment. The aggregate balance of such funds was approximately \$329,405 at December 31, 2019. During the year ended December 31, 2019, the interest rates paid on these balances ranged from 0.35% to 0.85%. While the Company pays interest on these funds at varying rates, the rate paid at December 31, 2019 was 0.35% with the weighted average interest rate paid during the year ended December 31, 2019 was 0.7%.

The Company maintains an allowance for doubtful accounts of \$48, which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2019, all unsecured customer receivables had been provided for in this allowance.

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**6. Securities Owned and Securities Sold, not yet Purchased**

At December 31, 2019, securities owned and securities sold, not yet purchased, both of which were carried at fair value, included the following:

**ASSETS**

**Securities owned:**

U. S. government agencies:	
Bonds	\$ 24,680
Residential mortgage-backed securities	331,358
Collateralized mortgage obligations	191,154
Corporate debt securities	36,973
States and political subdivisions	93,117
Unit investment trusts:	
Corporate securities	2,165
Municipal securities	1,303
Private-label issuers:	
Mortgage-backed securities	766
Asset-backed securities	2,226
Certificates of deposit	10
Options	41
	<u>\$ 683,793</u>

**LIABILITIES**

**Securities sold, not yet purchased:**

U. S. treasury securities	\$ 25,974
Corporate debt securities	14,737
Equity securities	3,106
	<u>\$ 43,817</u>

At December 31, 2019, none of the above securities was pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

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**7. Derivative Financial Instruments**

As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2019, the Company's derivative positions associated with these activities are presented below:

	<b>Notional Amount</b>	<b>Estimated Fair Value</b>
Commitments to purchase TBAs	\$ 3,346,946	\$ 3,321
Commitments to sell TBAs	3,769,100	(2,065)
Interest rate swaps	10,000	(112)
U.S. Treasury futures and options	37,500	-
Eurodollar futures	916,000	-

At December 31, 2019, the Company advanced cash collateral totaling \$1,963 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the statement of financial condition.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2019:

<b>Description</b>	<b>Gross amounts not offset in the statement of financial condition</b>					
	<b>Gross amounts of recognized assets/liabilities</b>	<b>Gross amounts offset in the statement of financial condition</b>	<b>Net amounts of assets/liabilities presented in the statement of financial condition</b>	<b>Financial instruments</b>	<b>Cash Collateral</b>	<b>Net Amount</b>
Derivative assets	\$ 3,640	\$ -	\$ 3,640	\$ (3,640)	\$ -	\$ -
Derivative liabilities	2,496	-	2,496	(2,496)	-	-

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**8. Fair Value of Financial Instruments**

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Securities owned, at fair value</b>				
U. S. government agencies:				
Bonds	\$ -	\$ 24,680	\$ -	\$ 24,680
Residential mortgage-backed securities	-	331,358	-	331,358
Collateralized mortgage obligations	-	191,154	-	191,154
Corporate debt securities	-	36,973	-	36,973
States and political subdivisions	-	93,117	-	93,117
Unit investment trusts:				
Corporate securities	-	2,165	-	2,165
Municipal securities	-	1,303	-	1,303
Private-label issuers:				
Mortgage-backed securities	-	766	-	766
Asset-backed securities	-	2,226	-	2,226
Certificates of deposit	-	10	-	10
Options	-	41	-	41
	<u>\$ -</u>	<u>\$ 683,793</u>	<u>\$ -</u>	<u>\$ 683,793</u>
<b>Derivative financial instruments</b>				
Commitments to purchase TBAs	<u>\$ -</u>	<u>\$ 3,640</u>	<u>\$ -</u>	<u>\$ 3,640</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>				
<b>Securities sold, not yet purchased, at fair value</b>				
U. S. treasury securities	\$ 25,974	\$ -	\$ -	\$ 25,974
Corporate debt securities	-	14,737	-	14,737
Equity securities	3,106	-	-	3,106
	<u>\$ 29,080</u>	<u>\$ 14,737</u>	<u>\$ -</u>	<u>\$ 43,817</u>
<b>Derivative financial instruments</b>				
Commitments to sell TBAs	\$ -	\$ 2,384	\$ -	\$ 2,384
Interest rate swaps	-	112	-	112
	<u>\$ -</u>	<u>\$ 2,496</u>	<u>\$ -</u>	<u>\$ 2,496</u>
<b>Net assets (liabilities)</b>	<u>\$ (29,080)</u>	<u>\$ 670,200</u>	<u>\$ -</u>	<u>\$ 641,120</u>

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Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the statement of operations. There was no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2019 for the year ended December 31, 2019.

**9. Securities Purchased/Sold Under Agreements to Resell/Purchase**

At December 31, 2019, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the statement of financial condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 60 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2019:

Description				Gross amounts not offset in the statement of financial condition		
	Gross amounts of recognized assets/ liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments (1)	Cash Collateral	Net Amount
Reverse repurchase agreements	\$ 59,031	\$ -	\$ 59,031	\$ (58,619)	\$ -	\$ 412
Repurchase agreements	586,651	-	586,651	(586,651)	-	-

<sup>(1)</sup>Amounts reflect fair value of underlying collateral.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2019:

	<b>Remaining Contractual Maturity of the Agreements</b>				
	<b>Overnight and Continuous</b>	<b>Up to 30 days</b>	<b>30-90 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Repurchase agreements</b>					
U.S. treasury and agency securities	\$ 20,476	\$ -	\$ -	\$ -	\$ 20,476
Asset backed securities	257,396	12,892	295,887	-	566,175
<b>Total borrowings</b>	<b>\$ 277,872</b>	<b>\$ 12,892</b>	<b>\$ 295,887</b>	<b>\$ -</b>	<b>\$ 586,651</b>
Gross amount of recognized liabilities for repurchase agreements					\$ 586,651
Amount related to agreements not included in offsetting disclosure					\$ -

## **10. Short-Term Borrowings and Commercial Paper**

### **Uncommitted lines of credit**

The Company has credit arrangements with commercial banks, which include broker loan lines up to \$725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (1.55% at December 31, 2019). At December 31, 2019, the amount outstanding under these secured arrangements was \$111,000, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at \$429,617.

### **Committed lines of credit**

At December 31, 2019, the Company had a \$50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least \$170,000. At December 31, 2019, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2019, the Company had pledged \$38,929 to support these open customer positions.

### **Commercial Paper**

In November 2019 and December 2019, the Company initiated two commercial paper programs, in the ordinary course of its business, of which the net proceeds (after deducting related issuance expenses) from the sale will be used for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes ("CP Notes") can be issued with

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maturities of 14 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, Series 2019-1 CP Notes ("Series 2019-1 CP Notes") and Series 2019-2 CP Notes ("Series 2019-2 CP Notes"), with the maximum amount of senior secured commercial paper notes that may be issued under the programs of \$300,000 and \$200,000, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The discount to maturity will be based on LIBOR (a rate per annum determined by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars offered on the London interbank dollar market), plus an applicable margin. The minimum denomination is \$100 with integral multiples of \$5 in excess of this denomination. The minimum issuance amount is \$1,000. The CP Notes are secured by a pledge of collateral owned by the Company. The Company is required to maintain a level of collateral in a control account held by the indenture trustee that exceeds the principal amount of the CP Notes outstanding by a percentage determined by the type of eligible collateral pledged on any business day. As of December 31, 2019, the weighted average maturity of the CP notes was 90 days at a rate of 2.208%. At December 31, 2019, the amount outstanding under these secured arrangements was \$19,260, which was collateralized by securities held for firm accounts valued at \$20,929.

**11. Note Payable Due to Affiliate and Subordinated Debt Due to Affiliate**

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, \$88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a \$42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of \$111,652, at the time of the contribution, plus interest to be paid to the Parent. At December 31, 2019, there was \$69,402 outstanding under these agreements.

**12. Income Taxes**

Income tax expense for the fiscal year ended December 31, 2019, (effective rate of 23.2%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	\$	17,653
State income taxes, net of federal tax benefit		1,992
Non-deductible expenses		803
Reserve for uncertain tax positions		36
Tax-exempt income, net		(706)
Share-based compensation benefit		(9)
Other, net		(299)
	\$	<u>19,470</u>

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**Hilltop Securities Inc.**  
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Income taxes as set forth in the statement of operations consist of the following components:

<b>Current</b>	
Federal	\$ 19,562
State	3,040
	<u>22,602</u>
<b>Deferred</b>	
Federal	\$ (2,613)
State	(519)
	<u>(3,132)</u>
Total income tax expense	<u>\$ 19,470</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 are presented below:

<b>Deferred tax assets:</b>	
Compensation and benefits	\$ 8,022
Implementation of ASU 842 - leases	4,827
Realized built-in loss carryforward	2,540
Deferred income	1,477
Legal and other reserves	454
Other	716
Total gross deferred tax asset	<u>18,036</u>
<b>Deferred tax liabilities:</b>	
Implementation of ASU 842 - leases	(3,660)
Intangible assets	(1,073)
Fixed Assets	(365)
Other	(580)
Total gross deferred tax liability	<u>(5,678)</u>
Net deferred tax asset	<u>\$ 12,358</u>

The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2019, the Company had recognized built-in losses ("RBIL") of \$2,540 from the 2015 merger with the Parent. At December 31, 2019, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of \$591. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

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At December 31, 2019, the total amount of gross unrecognized tax benefits was \$572, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was \$452.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

<b>Balance at December 31, 2018</b>	\$	293
Increases related to tax positions taken during a prior year		236
Decreases related to tax positions taken during a prior year		(109)
Increases related to tax positions taken during the current year		217
Lapse of applicable statute of limitations		(65)
<b>Balance at December 31, 2019</b>	\$	<u>572</u>

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2019.

With limited exception, the Company is no longer subject to U.S. federal tax examinations for tax years preceding 2016. The Company is open for various state tax audits for tax years 2015 and later.

The amount of current federal and state taxes payable from the Parent included in other liabilities on the statement of financial condition was \$3,823 and \$256, respectively, at December 31, 2019.

### **13. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of \$1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2019, the Company had net capital of approximately \$318,732, which is approximately \$310,982 in excess of its minimum net capital requirement of approximately \$7,750 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2019, the Company had net capital of approximately \$299,356 in excess of 5% of aggregate debit items.

### **14. Affiliate Transactions**

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately \$432 for the year ended December 31, 2019. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of \$50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

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**Hilltop Securities Inc.**  
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The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance). For the year ended December 31, 2019, the Company received \$2,693 of insurance fees, which are included in other income in the statement of operations. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses to facilitate the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to \$250. For the year ended December 31, 2019, the Company received a maintenance fee of \$11,444 on these bank insured funds from the Bank.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was \$93 for the year ended December 31, 2019, included in other expense on the statement of operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the statement of financial condition in the amount of \$12,749. The Company has recorded an allowance, included in other assets in the statement of financial condition, of \$2,755 for terminated relationships.

The Company is named as the lessee for a lease, which is subleased to the Bank. During the year ended December 31, 2019, the Company received and recorded in other revenue on the statement of operations \$102 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2019, the Company paid and recorded in occupancy, equipment and computer service costs on the statement of operations \$123 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company \$42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company \$88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2019, the Company paid interest of \$1,852 on the \$42,000 note and \$2,867 on the \$88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2019, the total Parent expenses passed through to the Company were \$13,945. On the statement of financial condition, the total receivable includes \$3,144 from First Southwest Holdings LLC and its subsidiaries, \$921 from the Bank and its subsidiaries and \$185 from Southwest Insurance Agency. The total payable includes \$6,714 to Securities Holdings, \$4,022 to the Parent, \$3,260 to First Southwest

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Holdings LLC and its subsidiaries, including \$457, which is reported in payable to brokers, dealers, and clearing organizations on the statement of financial condition, \$2,099 to HTIN, \$1,545 to Southwest Insurance Agency, \$39 to National Lloyds, a wholly owned subsidiary of the Parent and a \$300 clearing deposit to HTIN, which is reported in payable to clients on the statement of financial condition.

**15. Employee Benefits**

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately \$3,243 for the year ended December 31, 2019.

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From January 1, 2016 through December 31, 2019, the Compensation Committee awarded certain executives and key employees of the Company a total of 409,895 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was \$21.53 per share resulting in expected compensation expense of \$8,826.

At December 31, 2019, the Company had unrecognized compensation expense related to restricted stock grants of approximately \$3,219. For the year ended December 31, 2019, the Company has recognized compensation expense of \$1,895 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

**16. Leases**

The Company leases space, primarily for corporate offices, branch facilities and certain equipment under operating lease agreements. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases with the Parent's other subsidiaries and are reflected in the table and information presented below.

Lease rental cost of ROU assets is included within occupancy, equipment and computer services costs in the statements of operations. For the year ended December 31, 2019, the total lease expense for those leases not subject to ASC 842 was \$625. The Company does not generally enter into leases that contain variable payments, other than due to the passage of time.

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**Hilltop Securities Inc.**  
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The components of lease costs, including short-term lease costs, are as follows:

Operating lease cost	\$	9,896
Less: operating lease and sublease income		(1,554)
Net operating lease cost	\$	<u>8,342</u>

The Company's weighted average remaining lease term and weighted average discount rate as of December 31, 2019 were 5 years and 6.18%, respectively.

Future minimum lease payments under the leasing standard as of December 31, 2019, under lease agreements that had commenced as of January 1, 2019, are presented below:

2020	\$	9,433
2021		5,093
2022		3,369
2023		2,604
2024		1,200
Thereafter		<u>1,440</u>
Total Minimum lease payments	\$	23,139
Amount representing interest		(2,343)
Present value of minimum lease payments	\$	<u>20,796</u>

## **17. Commitments and Contingencies**

**Underwriting.** Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2019, the Company had no liabilities due under outstanding underwriting arrangements.

**Litigation.** In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

**Guarantees.** The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

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**Hilltop Securities Inc.**  
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The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

**18. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

**Hilltop Securities Inc.**  
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*(dollars in thousands, except par and redemption values)*

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**19. Preferred Stock**

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of \$20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of \$1,000 per share.

**20. Proprietary Accounts of Broker/Dealers ("PAB") Reserve Requirements**

The Company performs calculations of PAB reserve requirements. At December 31, 2019, the Company did not have a PAB reserve requirement and has no amount on deposit.

## **Supplemental Schedules**

**Hilltop Securities Inc.****Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of  
The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity  
Futures Trading Commission  
December 31, 2019**

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*(in thousands)*

Total stockholder's equity from statement of financial condition		\$	390,682
Add liabilities subordinated to claims of general creditors allowable in computation of net capital			<u>42,000</u>
Total capital and allowable subordinated liabilities			<u>432,682</u>
Deductions and /or charges:			
Receivable from affiliates	\$	(4,250)	
Fixed assets, net		(16,539)	
Securities owned, not readily marketable		(1,687)	
Other receivables from broker/dealers and clearing organizations		(9,570)	
Other investments, not readily marketable		(2,380)	
Other nonallowable assets		(55,064)	
Aged fails to deliver		(97)	
Aged short security differences		(329)	
Other deductions and/or charges		<u>(3,762)</u>	<u>(93,678)</u>
Net capital before haircuts on securities positions			339,004
Haircuts on securities positions			<u>(20,272)</u>
Net capital			318,732
Net capital requirement:			
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ( $\$387,507 \times 2\% = \$7,750$ ) or \$1,000			<u>7,750</u>
Excess net capital		\$	<u><u>310,982</u></u>
Net capital in excess of the greater of 5% of aggregate debit items or 120% of minimum net capital requirement		\$	<u><u>299,356</u></u>

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

**Hilltop Securities Inc.**  
**Supplemental Schedule II – Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934**  
**December 31, 2019**

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*(in thousands)*

**Credit balances:**

Free credit balances and other credit balances in customers' security accounts	\$ 433,901
Monies payable against customers' securities loaned	45,528
Customers' securities failed to receive	6,840
Credit balances in firm accounts which are attributable to principal sales to customers	1,173
Market value of short securities and credits in all suspense accounts over 30 calendar days	4
Other	37,321
Total credits	<u>524,767</u>

**Debit balances:**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	315,564
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	28,094
Failed to deliver of customers' securities not older than 30 calendar days	7,033
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts	36,816
Total debits	<u>387,507</u>
Less 3% haircut	<u>(11,625)</u>
Total debits	<u>375,882</u>
Excess of total credits over total debits	<u>\$ 148,885</u>

Reserve requirement at December 31, 2019:

Amount of cash held in "Reserve Bank Accounts" at December 31, 2019	\$ 157,436
Cash deposit made within required time frames (January 2, 2020)	(780)
Amount of cash held in "Reserve Bank Accounts"	<u>\$ 156,656</u>

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

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# Hilltop Securities Inc.

## Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 December 31, 2019

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State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2019 for which instructions to reduce to possession or control had been issued as of December 31, 2019 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	7
Market value	\$ -

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2019 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	-
Market value	\$ -

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**Hilltop Securities Inc.****Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934****December 31, 2019**

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*(in thousands)***Credit balances:**

Free credit balances and other credit balances in PAB security accounts	\$ 144,736
Monies borrowed collateralized by securities carried for the accounts of PAB	111,000
Monies payable against PAB securities loaned	530
PAB securities failed to receive	1,518
Credit balances in firm accounts which are attributable to principal sales to PAB	1,014
Other	<u>3,962</u>
Total PAB credits	<u>262,760</u>

**Debit balances:**

Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	363,154
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver	68,345
Failed to deliver of PAB securities not older than 30 calendar days	<u>826</u>
Total PAB debits	<u>432,325</u>
Excess of total PAB debits over total PAB credits	\$ <u><u>(169,565)</u></u>

PAB reserve requirement at December 31, 2019	\$ <u><u>-</u></u>
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Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2019 filed with the Financial Industry Regulatory Authority on January 27, 2020.

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### Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2019;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2019;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2019; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, M. Bradley Winges, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By:   
President and Chief Executive Officer

February 24, 2020



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

- (1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2019 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2019 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2019, and
- (4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2019, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2019, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2019 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

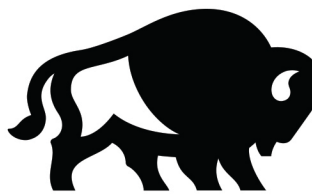
Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc. 's assertions referred to above are fairly stated, in all material respects.

*Princeton House Cooper LLP*

Dallas, Texas  
February 24, 2020

# HilltopSecurities



A Hilltop Holdings Company<sup>SM</sup>

## Hilltop Securities Inc.

**Financial Statements and Supplemental Schedules**

**Pursuant to Rule 17a-5 of the**

**Securities and Exchange Commission**

**For the Year Ended December 31, 2018**

**With Report of Independent Registered Public Accounting Firm**

This report is deemed CONFIDENTIAL in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934  
A statement of financial condition, compliance report and examination report,  
bound separately, have been filed with the  
Securities and Exchange Commission  
simultaneously herewith as a Public Document.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response...	12.00

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2018 AND ENDING December 31, 2018  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1201 Elm Street, Suite 3500

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

Dallas

TX

75270

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Laura Leventhal

214-859-1026

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers

(Name - if individual, state last, first, middle name)

2121 N. Pearl Street

Dallas

TX

75201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Hill A. Feinberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 202018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

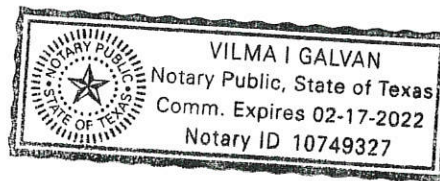
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Hill A. Feinberg  
Signature

Chairman

Title

Vilma I. Galvan  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

*\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

# Hilltop Securities Inc.

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December 31, 2018

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### **Supplemental Schedules**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Hilltop Securities Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. (the "Company") as of December 31, 2018, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplemental Information***

The accompanying information contained in Schedules I, II, III and IV has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
February 21, 2019

We have served as the Company's or its predecessor auditor since 2013.

**Hilltop Securities Inc.**  
**Statement of Financial Condition**  
**December 31, 2018**

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*(dollars in thousands, except par and redemption values)*

**Assets**

Cash	\$ 13,989
Assets segregated for regulatory purposes	133,993
Receivable from brokers, dealers and clearing organizations	1,760,315
Receivable from clients, net of allowance of \$122	391,947
Securities owned, at fair value	737,549
Securities purchased under agreements to resell	61,611
Goodwill	7,008
Customer intangible, net of accumulated amortization of \$10,874	5,926
Fixed assets, at cost, less accumulated depreciation of \$18,196	16,980
Net deferred tax asset	9,188
Other assets (including \$3,887 due from affiliates)	52,917
Total assets	<u>\$ 3,191,423</u>

**Liabilities and Stockholder's Equity**

Short-term borrowings	\$ 189,000
Payable to brokers, dealers, and clearing organizations (including \$457 due to affiliate)	1,295,381
Payable to clients (including \$300 clearing deposit due to affiliate)	516,605
Drafts payable	23,722
Securities sold, not yet purchased, at fair value	81,667
Securities sold under agreements to repurchase	533,441
Notes payable due to affiliate	66,902
Subordinated debt due to affiliate	42,000
Accrued expenses and other liabilities (including \$14,836 due to affiliates)	108,582
Total liabilities	<u>2,857,300</u>

Stockholder's equity:

Series A preferred stock, \$20 par value, \$1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding	-
Class A voting common stock of \$1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares	3
Class B nonvoting common stock of \$1 par value; authorized 10,000 shares; none issued	-
Additional paid-in capital	288,349
Retained earnings	45,771
Total stockholder's equity	<u>334,123</u>
Total liabilities and stockholder's equity	<u>\$ 3,191,423</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Operations**  
**Year Ended December 31, 2018**

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*(in thousands)*

Revenues:

Interest	\$	129,308
Investment banking, advisory and administrative fees		111,721
Commissions		76,007
Net gains on principal transactions		47,755
Net revenues from clearing operations		13,691
Other		13,463
Total revenues		<u>391,945</u>

Expenses:

Commissions and other employee compensation	187,510
Interest	83,872
Occupancy, equipment and computer service costs	40,933
Communications	14,781
Floor brokerage and clearing organization charges	7,317
Advertising and promotional	6,565
Other	28,461
Total expenses	<u>369,439</u>

Income before income tax expense 22,506

Income tax expense	<u>4,529</u>
Net income	<u>\$ 17,977</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Statement of Stockholder's Equity**  
**Year Ended December 31, 2018**

---

*(dollars in thousands)*

	<b>Class A Voting Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at December 31, 2017	2,820	\$ 3	\$ 287,678	\$ 27,794	\$ 315,475
Net income	-	-	-	17,977	17,977
Restricted stock plan	-	-	671	-	671
Balance at December 31, 2018	<u>2,820</u>	<u>\$ 3</u>	<u>\$ 288,349</u>	<u>\$ 45,771</u>	<u>\$ 334,123</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2018**

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*(in thousands)*

**Cash flows from operating activities:**

Net income	\$ 17,977
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income tax expense	1,505
Depreciation and amortization	7,543
Loss on sale of fixed assets	40
Compensation expense for restricted stock	983
Provision for doubtful accounts	(230)
Changes in operating assets and liabilities:	
Brokers, dealers and clearing organizations accounts, net	23,814
Client accounts, net	(27,032)
Securities owned, at fair value	(16,685)
Securities purchased under agreements to resell	124,926
Other assets	11,292
Drafts payable	(1,430)
Securities sold, not yet purchased	(151,154)
Accrued expenses and other liabilities	(26,186)
Net cash used in operating activities	<u>(34,637)</u>

**Cash flows from investing activities:**

Purchase of fixed assets	(6,831)
Proceeds from sale of fixed assets	84
Net cash used in investing activities	<u>(6,747)</u>

**Cash flows from financing activities:**

Payments on short-term borrowings	(3,740,500)
Cash proceeds on short-term borrowings	3,614,000
Payments on loans payable to Hilltop Securities Holdings Inc.	(7,750)
Cash proceeds on securities sold under agreements to repurchase	124,383
Net cash used in financing activities	<u>(9,867)</u>

Net change in cash (51,251)

Cash and restricted cash at beginning of year 199,233

Cash and restricted cash at end of year \$ 147,982

**Reconciliation of Cash and Restricted Cash to Statement of Financial Condition**

Cash	\$ 13,989
Assets segregated for regulatory purposes	133,993
Total cash and restricted cash	<u>\$ 147,982</u>

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$ <u>83,427</u>
Cash paid for taxes, net of refunds	\$ <u>9,385</u>

**Supplemental disclosure of non-cash activities:**

Forfeitures of restricted stock awards	\$ <u>312</u>
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The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Changes in Subordinated Borrowings**  
**Year Ended December 31, 2018**

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*(in thousands)*

Subordinated borrowings at December 31, 2017	\$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2018	\$	<u>42,000</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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**1. Organization**

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company's revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

**2. Summary of Significant Accounting Policies**

**Securities Transactions**

Proprietary securities transactions are recorded on trade date, as if they had settled. Clients' securities and commodities transactions are reported on a settlement date basis, which approximates trade date basis.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management. The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the Statement of Operations. Interest income is recorded on these securities when earned.

**Fixed Assets and Depreciation**

Fixed assets are comprised of furniture and equipment (\$26,824) and leasehold improvements (\$8,352) which are stated at cost. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

**Goodwill and Customer Intangible**

The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

At October 1, 2018, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of First Southwest Company, LLC ("FSC") by the Parent in November 2012 and the merger of the Company with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the years digits.

The Company determined that no impairment for the Company's intangible assets was necessary upon their evaluation on October 1, 2018.

The estimated aggregate future amortization expense for the customer relationship intangibles at December 31, 2018 is as follows:

2019	\$	1,302
2020		1,130
2021		958
2022		786
2023		614
Thereafter		1,136
	\$	<u>5,926</u>

**Resale and Repurchase Agreements**

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the Statement of Financial Condition in other liabilities and other assets, respectively.

**Securities Borrowing and Lending Activities**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the Statement of Financial Condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the Statement of Operations in interest revenue and interest expense, respectively.

**Drafts Payable**

In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid.

**Revenue Recognition**

On January 1, 2018, the Company adopted the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, using the modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application and to new contracts entered into thereafter. The new standard outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. Interest revenue, net gains on principal transactions and money market management fees are not within the scope of ASC 606.

The Company’s revenue recognition policies were affected upon adoption of ASC 606. Specifically, the new guidance required changes to the principal versus agent conclusion for certain advisory and underwriting revenues and expenses which, as of January 1, 2018, are recorded on a gross basis while legacy guidance required these revenues to be recognized net of the related expenses. Conversely, certain contract costs related to the Company’s operations are now netted against the revenues while the legacy guidance required these revenues and expenses to be recognized on a gross basis. These changes did not have a material effect on the Company’s financial statements during 2018. As the measurement and timing of revenue recognition was not affected for any of the Company’s revenue streams, the implementation of the new guidance had no impact on opening retained earnings as of January 1, 2018.

*Investment Banking, Advisory and Administrative Fees*  
*Managed Money*

The Company receives a management fee received in connection with management and investment advisory services performed for separately managed accounts. The performance obligation related to the transfer of these services is satisfied over time. These fees are recorded when earned based on the period-end value of account assets. Though these fees are variable in nature, the Company has determined that the fees are not constrained and are recognized as revenue during the period in which the services are provided.

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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*Public Banking*

Under financial advisory agreements, the Company provides public finance services for school districts, municipalities and government agencies to meet their financing needs such as assisting with the issuance of debt, advising on an on-going basis & providing disclosure statements. The Company also provides portfolio management and local government investment pool administration.

These agreements have six distinct performance obligations, financial advisory, retainer, consulting, continuing disclosure, placement and administration.

Financial advisory

Revenue from financial advisory service contracts is earned from services related to the bond issues. The fee is either fixed or calculated based on the par value of the bond. Revenue is recognized when the performance obligation for the transaction is satisfied, delivery of the bonds.

Retainer

Revenue from retainer service contracts is earned from on-going general financial services that may or may not lead to debt issuances. The Company provides on-going general financial services that will guide the client in making financial decisions which may include the issuance of debt. The fees are fixed, satisfied over time and recognized over the service period notated in the customer contract. Any up-front payments are deferred until recognized and are not material at December 31, 2018.

Consulting

Revenue from consulting service contracts is earned from debt services for bond issues, with fees generally based on an hourly rate and from non-debt issuance services, with fees either fixed or based on an hourly rate. Revenue from consulting fees relating to debt services is recognized at a point in time, when the performance obligation for the transaction is satisfied, date of issuance, and revenue from consulting fees relating to non-debt issuance services is recognized at a point in time when the performance obligation for the defined project is complete and made available to the customer. For consulting fees that are variable in nature, Company management has determined that the fees are 100% constrained and unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the consulting services.

Continuing disclosure

Revenue from continuing disclosure service contracts is earned from services provided to its customers in the form of disclosures made to the investing public pertaining to debt obligations as set forth by the SEC. The fees for these services are based on the percent of the transaction, on an hourly rate or are fixed. For the fees that are variable in nature, Company management has determined that the fees are 100% constrained and unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the continuing disclosure services. Revenue from continuing disclosure fees are recognized at a point in time when the work is completed.

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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Placement

Revenue from placement service contracts is earned from services to act as a placement agent in connection with the issuance of financial securities. Revenue is recognized when the performance obligation for the transaction is satisfied, date of debt issuance.

Administration

The Company provides administrative, marketing, and participant services for two investment pools. These pools provide government entities with the flexibility to meet their cash management objectives. The purpose of the pools is to group funds of municipalities into a larger fund size whereby they receive higher returns than if the funds were invested by the municipality on its own. As an administrator, the Company receives fees based on the net assets of the individual programs. Though these fees are variable in nature, Company management has determined that the fees are not constrained and are recognized on a monthly basis.

*Underwriting*

The Company underwrites securities for business entities and governmental entities that want to raise funds through a sale of securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

*Structured housing and products*

The Company assists housing finance corporations in issuing bonds and other financial structures to fund qualified home buyer mortgages or rental housing either by offering financial advisory services to the finance corporation or acting as the underwriter to the bond issue. The Company also assists customers in finding investment vehicles for the funds raised by public entities from bond issuances and provides financial advisory support to public entities by creating comprehensive financing and hedging plans applicable to balance sheet management while complying with Treasury Regulations. In addition, the Company provides periodic monitoring of these investment vehicles and an annual accounting valuation and effectiveness testing for derivative contracts. The transaction price varies depending on the services contracted by the customer. These fees are generally variable in nature and are based on the value of the underlying product. Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon completion of the services.

Commissions

*Brokerage*

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or

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purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*Soft Dollar*

The Company provides soft dollar arrangements to customers. In these arrangements, the Company provides research to customers in return for a certain volume of trade order flow to the Company. These types of transactions are governed by Section 28(e) of the Exchange Act, which allows the paying of a brokerage commission if the manager determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided. Management has identified two separate performance obligations with these arrangements, trade execution and research. The trade execution services are recognized on a consistent basis as noted above in *Commissions-Brokerage*. The recognition of research services revenue is based on the services specified by the customer contract. These services could be over a period of time and recognized as such or a one time service that is recognized at the time of completion of the service. Management has determined that the Company is an agent in the research transactions performed for customers. The Company contracts with a third-party to provide customers' requested research services. This third-party is primarily responsible for fulfilling the terms of the contracted research services. The Company does not have control of the research before it is distributed to the customer. As an agent, the Company records the fees earned for facilitating the transfer of the research services as revenue and presents them net in the Statement of Operations.

*12b-1*

As a mutual fund distributor, the Company incurs distribution costs and receives 12b-1 fees for marketing and distribution of mutual funds from the fund as compensation for these costs. The fees received from the fund are based on the assets/positions held by the Company at the end of the specified period notated in the contract. As these fees are variable in nature, Company management has determined that the fees are 100% constrained and is unable to estimate the total amount earned from these transactions due to a broad range of possible amounts. These amounts are constrained until the fee becomes known, upon receipt of funds from the mutual fund providers. Revenue from 12b-1 fees are recognized at a point in time when the fees become known, which is dictated by the contract payout terms, (i.e. weekly, bi-monthly, monthly and quarterly.)

*Net Revenues from Clearing Operations*

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Management has determined that they are an agent in the transactions performed for the correspondent brokers. The correspondent is primarily responsible for fulfilling the terms of their customer contracts. The correspondent brokers have contracted with the Company to fulfill their customers' transactions. As an agent, the Company records the fees earned for facilitating the transfer of goods and services, and fees earned based on the correspondent broker contract less any fees earned by the correspondent broker on their customer transactions (i.e. commission) as revenue. The net revenue earned is satisfied over time as the services performed are unique to each correspondent broker and recognized on a monthly basis.

*Other Revenue*

*Brokerage custody fees*

Brokerage custody fees are specific fees contracted by the brokerage customer for services performed by the Company. Revenue for these fees are recognized in a manner similar to commissions, as noted above in *Commissions-Brokerage*.

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*Insurance*

The Company receives commissions from the sale of insurance policies. The commissions are received in the form of up front commissions that are received upon the initial sale of the insurance product to the customer. Additional commissions are received over a stated period of time as long as the Company is the broker/dealer of record and the contract is viable. These commissions are variable in nature and the Company has determined that the additional commissions received subsequent to those received on the sale date are constrained and are only recognized as revenue to the extent that it is probable that a significant reversal will not occur when any uncertainty in the amount received from the carriers is ultimately resolved. The Company is unable to estimate these subsequent commissions due to the large number and broad range of possible amounts unknown at the time of the sale of the policy to the customer. As a result these amounts are recognized as revenue upon receipt of payment from the insurance carriers.

*Contract Costs*

Advisory services from public banking and underwriting costs are shown gross in the Statement of Operations as the Company has determined that the Company is a principal with respect to its portion of the services performed for the customer. The Company is responsible for fulfilling the terms of the contract and bears the risk of loss until the service has been transferred to the customer.

The Company pays fees to outside third parties for platform administration and model implementation associated with its management and investment advisory services. In regard to these services, the Company has determined that it is the principal in regard to the administrative services performed. Therefore, any revenue and expenses are reported gross on the statement of operations.

Amounts collected on behalf of third parties, such as postage fees, are not included in the transaction price as they are collected from the customer to cover the cost of sending out customer correspondence. The Company has determined that it acts as an agent in these transactions as it is collecting the postage on behalf of a third party. As a result, the fees associated with the postage for customer correspondence is netted against the funds received from the customer for this service, which are included in other revenue on the Statement of Operations.

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The following table presents revenue by major source for the year ended December 31, 2018:

**Revenue from contracts with customers**

Investment banking, advisory and administrative fees	
Advisory services--public banking	\$ 51,708
Advisory services--managed money	15,104
Underwriting fees	7,306
Structured housing and products	4,354
Other	2,747
	<u>\$ 81,219</u>
Commissions	
Brokerage commissions	\$ 67,559
Soft dollar	4,557
12b-1 fees	3,891
	<u>\$ 76,007</u>
Net revenues from clearing operations	\$ 13,691
Other	
Brokerage custody fees	\$ 5,989
Insurance income	3,048
Other	4,426
	<u>\$ 13,463</u>
Total Revenue from contracts with customers	\$ 184,380

**Revenue not in scope of ASC 606**

Investment banking, advisory and administrative fees - money market fees	\$ 30,502
Interest	129,308
Net gains on principal transactions	47,755
	<u>\$ 207,565</u>
<b>Total revenues</b>	<u><u>\$ 391,945</u></u>

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**Cash Flow Reporting**

For the purpose of presentation in the statements of cash flows, cash and restricted cash are defined as the amounts included in the Statement of Financial Condition's captions "Cash" and "Assets segregated for regulatory purposes." The Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to \$250. At December 31, 2018, the cash balances included \$12,827 that was not federally insured because they exceeded federal insurance limits. This at-risk amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

**Derivative Financial Instruments**

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients that allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to estimate the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party. The Company mitigates interest rate risk and earnings volatility by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities.

The Company also utilizes a portfolio of exchange-traded derivative instruments to achieve a fair value return that economically hedges changes in the fair value of their securities products. These derivative instruments include both Eurodollar and Treasury Futures.

While the forward purchase commitments, TBAs, and U.S. Treasury and Eurodollar futures and options meet the definition of a derivative under the provisions of ASC 815 "*Derivatives and Hedging*," they do not qualify for hedge accounting. These derivative securities are carried at fair value and recorded in other assets and other liabilities in the Statement of Financial Condition with unrealized and realized gains recorded in net gains (losses) on principal transactions in the Statement of Operations.

**Income Taxes**

The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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**Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- **Level 1** — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
- **Level 2** — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.
- **Level 3** — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative securities).***

Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

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Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's commitments to purchase and sell derivative securities.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The Company has performed an evaluation of subsequent events from January 1, 2019 through February 21, 2019, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2018.

**3. Assets Segregated For Regulatory Purposes**

At December 31, 2018, the Company held cash of \$133,993 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

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**4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations**

At December 31, 2018, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

**Receivable:**

Securities borrowed	\$	1,365,547
Correspondent broker/dealers		243,179
Clearing organizations		76,849
Securities failed to deliver		16,300
Trades in process of settlement, net		32,993
Other		25,447
	\$	<u>1,760,315</u>

**Payable:**

Securities loaned	\$	1,186,073
Securities failed to receive		75,015
Correspondent broker/dealers		29,311
Other		4,982
	\$	<u>1,295,381</u>

The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2018, the Company held collateral for the receivables from correspondents in the amount of \$333,066.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

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The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2018:

Description	Gross amounts not offset in the statement of financial condition					
	Gross amounts of recognized assets/liabilities (2)	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Financial instruments (3)	Cash Collateral	Net Amount
Securities borrowed	\$ 1,365,547	\$ -	\$ 1,365,547	\$ (1,307,121)	\$ -	\$ 58,426
Securities loaned <sup>(1)</sup>	1,186,073	-	1,186,073	(1,136,034)	-	50,039

<sup>(1)</sup>Under securities lending agreements, the Company repledged \$1,156,687.

<sup>(2)</sup>Securities borrowed and loaned are not presented net on the Statement of Financial Condition.

<sup>(3)</sup>Amounts reflect fair value of underlying collateral.

**Securities Lending Activities.** The Company's securities lending activities includes lending securities for other broker/dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker/dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

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The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2018:

	<b>Remaining Contractual Maturity of the Agreements</b>				
	<b>Overnight and Continuous</b>	<b>Up to 30 days</b>	<b>30-90 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Securities lending transactions</b>					
Corporate securities	\$ 113	\$ -	\$ -	\$ -	\$ 113
Equity securities	1,185,960	-	-	-	1,185,960
Total borrowings	\$ 1,186,073	\$ -	\$ -	\$ -	\$ 1,186,073
Gross amount of recognized liabilities for securities lending					\$ 1,186,073
Amount related to agreements not included in offsetting disclosure					\$ -

## 5. Receivable From and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately \$2,088 and \$7, respectively, at December 31, 2018. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2018, the Company has approximately \$466,335 of client securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately \$29,387 under securities loan agreements.

The Company pays interest on certain customer "free credit" balances available for reinvestment. The aggregate balance of such funds was approximately \$393,685 at December 31, 2018. During the year ended December 31, 2018, the interest rates paid on these balances ranged from 0.20% to 0.85%. While the Company pays interest on these funds at varying rates, the rate paid at December 31, 2018 was 0.85% with the weighted average interest rate paid during the year ended December 31, 2018 was 0.44%.

The Company maintains an allowance for doubtful accounts of \$122 which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2018, all unsecured customer receivables had been provided for in this allowance.

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**6. Securities Owned and Securities Sold, not yet Purchased**

At December 31, 2018, securities owned and securities sold, not yet purchased, both of which are carried at fair value, included the following:

**ASSETS**

**Securities owned:**

U. S. treasury securities	\$	7,945
U. S. government agencies:		
Bonds		1,494
Residential mortgage-backed securities		309,131
Collateralized mortgage obligations		206,813
Corporate debt securities		59,293
States and political subdivisions		126,748
Unit investment trusts:		
Corporate securities		8,720
Municipal securities		11,193
Private-label issuers:		
Mortgage-backed securities		5,430
Asset-backed securities		250
Certificates of deposit		525
Options		4
Equity securities		3
	\$	<u>737,549</u>

**LIABILITIES**

**Securities sold, not yet purchased:**

U. S. treasury securities	\$	15,036
U. S. government agencies:		
Bonds		1,361
Corporate debt securities		47,306
Equity securities		17,964
	\$	<u>81,667</u>

At December 31, 2018, none of the above securities were pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

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**7. Derivative Financial Instruments**

As described in **Note 2**, the Company participates in various hedging activities and at December 31, 2018, the Company's derivative positions associated with these activities are presented below:

	<b>Notional Amount</b>	<b>Estimated Fair Value</b>
Commitments to purchase TBAs	\$ 2,359,630	\$ 10,467
Commitments to sell TBAs	2,272,450	(7,726)
U.S. Treasury futures and options	82,200	-
Eurodollar futures	78,000	-

At December 31, 2018, the Company advanced cash collateral totaling \$915 on its U.S. Treasury bond futures and options and Eurodollar futures. This amount is included in other assets within the Statement of Financial Condition.

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2018:

				<b>Gross amounts not offset in the statement of financial condition</b>		
<b>Description</b>	<b>Gross amounts of recognized assets/liabilities</b>	<b>Gross amounts offset in the statement of financial condition</b>	<b>Net amounts of assets/liabilities presented in the statement of financial condition</b>	<b>Financial instruments</b>	<b>Cash Collateral</b>	<b>Net Amount</b>
Derivative assets	\$ 10,469	\$ -	\$ 10,469	\$ (10,469)	\$ -	\$ -
Derivative liabilities	7,728	-	7,728	(7,728)	-	-

**8. Fair Value of Financial Instruments**

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2018:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Securities owned, at fair value</b>				
U. S. treasury securities	\$ 7,945	\$ -	\$ -	\$ 7,945
U. S. government agencies:				
Bonds	-	1,494	-	1,494
Residential mortgage-backed securities	-	309,131	-	309,131
Collateralized mortgage obligations	-	206,813	-	206,813
Corporate debt securities	-	59,293	-	59,293
States and political subdivisions	-	126,748	-	126,748
Unit investment trusts:				
Corporate securities	-	8,720	-	8,720
Municipal securities	-	11,193	-	11,193
Private-label issuers:				
Mortgage-backed securities	-	5,430	-	5,430
Asset-backed securities	-	250	-	250
Certificates of deposit	-	525	-	525
Options	-	4	-	4
Equity securities	3	-	-	3
	<u>\$ 7,948</u>	<u>\$ 729,601</u>	<u>\$ -</u>	<u>\$ 737,549</u>
<b>Derivative financial instruments</b>				
Commitments to purchase TBAs	<u>\$ -</u>	<u>\$ 10,469</u>	<u>\$ -</u>	<u>\$ 10,469</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>				
<b>Securities sold, not yet purchased, at fair value</b>				
U. S. treasury securities	\$ 15,036	\$ -	\$ -	\$ 15,036
U. S. government agencies:				
Bonds	-	1,361	-	1,361
Corporate debt securities	-	47,306	-	47,306
Equity securities	17,964	-	-	17,964
	<u>\$ 33,000</u>	<u>\$ 48,667</u>	<u>\$ -</u>	<u>\$ 81,667</u>
<b>Derivative financial instruments</b>				
Commitments to sell TBAs	<u>\$ -</u>	<u>\$ 7,728</u>	<u>\$ -</u>	<u>\$ 7,728</u>
<b>Net assets (liabilities)</b>	<u>\$ (25,052)</u>	<u>\$ 683,675</u>	<u>\$ -</u>	<u>\$ 658,623</u>

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At the end of each respective quarterly reporting period, the Company recognizes transfers of financial instruments between levels. During the year ended December 31, 2018, the Company did not have any transfers of financial instruments between levels.

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the Statement of Operations. There was no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2018 for the year ended December 31, 2018.

**9. Securities Purchased/Sold Under Agreements to Resell/Purchase**

At December 31, 2018, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the Statement of Financial Condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 30 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2018:

Description	Gross amounts of recognized assets/liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition	Gross amounts not offset in the statement of financial condition		
				Financial instruments <sup>(1)</sup>	Cash Collateral	Net Amount
Reverse repurchase agreements	\$ 61,611	\$ -	\$ 61,611	\$ (61,390)	\$ -	\$ 221
Repurchase agreements	533,441	-	533,441	(533,441)	-	-

<sup>(1)</sup>Amounts reflect fair value of underlying collateral.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2018:

	<b>Remaining Contractual Maturity of the Agreements</b>				
	<b>Overnight and Continuous</b>	<b>Up to 30 days</b>	<b>30-90 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Repurchase agreements</b>					
U.S. treasury and agency securities	\$ 88,582	\$ -	\$ -	\$ -	\$ 88,582
Asset backed securities	444,859	-	-	-	444,859
<b>Total borrowings</b>	<b>\$ 533,441</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 533,441</b>
Gross amount of recognized liabilities for repurchase agreements					\$ 533,441
Amount related to agreements not included in offsetting disclosure					\$ -

## 10. Short-Term Borrowings

### Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to \$725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (2.50% at December 31, 2018). At December 31, 2018, the amount outstanding under these secured arrangements was \$189,000, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at \$545,604.

### Committed lines of credit

At December 31, 2018, the Company had a \$50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least \$170,000. At December 31, 2018, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2018, the Company had pledged \$134,906 to support these open customer positions.

## 11. Note Payable Due to Affiliate & Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, \$88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a \$42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a rate of 4.35% per annum. Both the agreements were entered into as part of the merger of FSC with the

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**Hilltop Securities Inc.**  
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*(dollars in thousands, except par and redemption values)*

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Company. In August of 2018, the promissory note held by First Southwest Holdings LLC and the subordinated loan with Securities Holdings were contributed to the Parent, with the remaining balance of \$111,652, at the time of the contribution, plus interest to be paid to the Parent. At December 31, 2018, there was \$108,902 outstanding under these agreements.

**12. Income Taxes**

Income tax expense for the fiscal year ended December 31, 2018, (effective rate of 20.1%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (21%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	\$	4,726
State income taxes, net of federal tax benefit		516
Non-deductible expenses		374
Reserve for uncertain tax positions		98
Tax-exempt income, net		(724)
Share-based compensation benefit		(35)
Other, net		(426)
	\$	<u>4,529</u>

Income taxes as set forth in the statement of operations consist of the following components:

<b>Current</b>		
Federal	\$	2,838
State		<u>186</u>
		<u>3,024</u>
<b>Deferred</b>		
Federal	\$	1,038
State		<u>467</u>
		<u>1,505</u>
Total income tax expense	\$	<u>4,529</u>

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 are presented below:

**Deferred tax assets:**

Compensation and benefits	\$	5,309
Realized built-in loss carryforward		2,528
Deferred income		1,692
Deferred rent		1,364
Legal and other reserves		646
Other		618
Total gross deferred tax asset		<u>12,157</u>

**Deferred tax liabilities:**

Intangible assets		(1,369)
Fixed Assets		(996)
Other		(604)
Total gross deferred tax liability		<u>(2,969)</u>
Net deferred tax asset	\$	<u>9,188</u>

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance. The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2018, the Company had recognized built-in losses ("RBIL") of \$2,528 from the 2015 merger with the Parent. At December 31, 2018, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of \$712. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

At December 31, 2018, the total amount of gross unrecognized tax benefits was \$293, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was \$231.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

<b>Balance at December 31, 2017</b>	\$	162
Increases related to tax positions taken during a prior year		125
Increases related to tax positions taken during the current year		6
<b>Balance at December 31, 2018</b>	\$	<u>293</u>

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2018.

With limited exception, the Company is no longer subject to U.S. federal, state or local tax audits by taxing authorities for years preceding 2015.

The amount of current federal and state taxes receivable from the Parent included in other assets on the Statement of Financial Condition was \$1,125 and \$556, respectively, at December 31, 2018.

### **13. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of \$1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2018, the Company had net capital of approximately \$193,995 which is approximately \$183,097 in excess of its minimum net capital requirement of approximately \$10,898 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2018, the Company had net capital of approximately \$166,750 in excess of 5% of aggregate debit items.

### **14. Affiliate Transactions**

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately \$514 for the year ended December 31, 2018. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of \$50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

The Company receives insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, SWS Insurance). For the year ended December 31, 2018, the Company received \$3,048 of insurance fees which are included in other income in the Statement of Operations. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses for the purpose of facilitating the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to \$250. For the year ended December 31, 2018, the Company received a maintenance fee of \$11,240 on these bank insured funds from the Bank.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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*(dollars in thousands, except par and redemption values)*

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The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was \$88 for the year ended December 31, 2018, included in other expense on the Statement of Operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the Statement of Financial Condition in the amount of \$15,373 for which the Company has recorded an allowance, included in other assets in the Statement of Financial Condition, of \$2,555 for terminated relationships.

The Company is named as the lessee for two leases which are subleased to the Bank. During the year ended December 31, 2018, the Company received and recorded in other revenue on the Statement of Operations \$100 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2018, the Company paid and recorded in occupancy, equipment and computer service costs on the Statement of Operations \$116 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company \$42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company \$88,127, bearing an interest at a rate of 5% per annum. During August of 2018, the notes were contributed to the Parent (see **Note 11**). During the year ended December 31, 2018, the Company paid interest of \$1,852 on the \$42,000 note and \$3,459 on the \$88,127 note.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. During the year ended December 31, 2018, the total Parent expenses passed through to the Company were \$9,472. On the Statement of Financial Condition, the total receivable includes \$2,779 from First Southwest Holdings LLC and its subsidiaries, \$951 from the Bank, \$119 from Southwest Insurance Agency and \$38 from the National Lloyds Corporation, a wholly owned subsidiary of the Parent. The total payable includes \$6,703 to Securities Holdings, \$1,521 to Southwest Insurance Agency, \$3,478 to the Parent, \$2,429 to First Southwest Holdings LLC and its subsidiaries, including \$457, which is reported in payable to brokers, dealers, and clearing organizations on the Statement of Financial Condition, \$1,162 to HTIN and a \$300 clearing deposit to HTIN, which is reported in payable to clients on the Statement of Financial Condition.

## **15. Employee Benefits**

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately \$3,044 for the year ended December 31, 2018.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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On January 1, 2015, under the terms of the merger agreement, the Parent's stockholders, including the Company's officers and employees who held stock issued under the SWS Group, Inc.'s, the former parent of the Company restricted stock plans, received per share consideration of 0.2496 shares of Hilltop Holdings Inc. common stock and \$1.94 of cash. Each restricted share of the Parent's common stock granted prior to the date of the merger agreement vested in full on January 1, 2015 and the holders of such restricted shares received the merger consideration for each such share on the same basis as the Parent's stockholders, less applicable withholding taxes, which were withheld first from the cash portion of the merger consideration payable in respect of each such share. The restricted shares of SWS Group, Inc. common stock converted into the right to receive an aggregate of 62,994 restricted shares of Hilltop Holdings Inc. common stock. The shares vesting schedule did not accelerate, generally vested in three equal annual installments beginning on August 20, 2015, and were subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods. These shares were fully vested on August 20, 2018.

Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From May of 2013 through April of 2015, the compensation committee of the board of directors of the Parent ("Compensation Committee") awarded certain executives and key employees of FSC a total of 60,000 restricted shares of common stock ("RSAs") and 100,729 RSUs pursuant to the 2012 Plan. These RSAs and RSUs were subject to service conditions set forth in the grant agreements with associated costs recognized on a straight-line basis over the vesting period. The weighted average grant date fair value related to these RSAs and RSUs was \$17.59 per share, resulting in expected compensation expense of \$2,828. These awards are fully vested as of December 31, 2018.

From January 1, 2015 through December 31, 2018, the Compensation Committee awarded certain executives and key employees of the Company a total of 274,962 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was \$22.34 per share resulting in expected compensation expense of \$6,141.

At December 31, 2018, the Company had unrecognized compensation expense related to restricted stock grants of approximately \$1,734. For the year ended December 31, 2018, the Company has recognized compensation expense of \$983 for all restricted stock granted to the Company's employees.

Upon vesting of the shares granted under the Parent's restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

## **16. Commitments and Contingencies**

**Leases.** The Company leases its offices and certain equipment under noncancelable operating lease agreements. The Company recognizes escalating lease payments on a straight line basis over the term of each respective lease with the difference between cash payment and rent expense recorded as deferred rent and included in other liabilities in the Statement of Financial Condition. Rental expense relating to the facilities and equipment leases for the year ended December 31, 2018 aggregated to \$9,212.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
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*(dollars in thousands, except par and redemption values)*

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At December 31, 2018, the future rental payments for the noncancelable operating leases for each of the following five years and thereafter follows:

2019	\$	10,781
2020		9,784
2021		6,326
2022		4,871
2023		4,095
Thereafter		8,963
	\$	<u>44,820</u>

**Underwriting.** Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2018, the Company had no liabilities due under outstanding underwriting arrangements.

**Litigation.** In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

**Guarantees.** The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

#### **17. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

## **18. Preferred Stock**

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of \$20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of \$1,000 per share.

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2018**  
*(dollars in thousands, except par and redemption values)*

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**19. Proprietary Accounts of Broker/Dealers (“PAB”) Reserve Requirements**

The Company performs calculations of PAB reserve requirements. At December 31, 2018, the Company did not have a PAB reserve requirement and has no amount on deposit.

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## **Supplemental Schedules**

**Hilltop Securities Inc.****Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of  
The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity  
Futures Trading Commission  
December 31, 2018**

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*(in thousands)*

Total stockholder's equity from statement of financial condition	\$	334,123	
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>42,000</u>	
Total capital and allowable subordinated liabilities		<u>376,123</u>	
Deductions and /or charges:			
Receivable from affiliates	\$	(3,887)	
Fixed assets, net		(16,980)	
Securities owned, not readily marketable		(7,020)	
Other receivables from broker/dealers and clearing organizations		(16,974)	
Other investments, not readily marketable		(2,370)	
Other nonallowable assets		(63,734)	
Aged fails to deliver		(486)	
Aged short security differences		(338)	
Other deductions and/or charges		<u>(5,402)</u>	<u>(117,191)</u>
Net capital before haircuts on securities positions			258,932
Haircuts on securities positions			<u>(64,937)</u>
Net capital			193,995
Net capital requirement:			
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II (\$544,886 x 2% = \$10,898) or \$1,000			<u>10,898</u>
Excess net capital	\$		<u><u>183,097</u></u>
Net capital in excess of the greater of 5% of aggregate debit items or \$1,200	\$		<u><u>166,750</u></u>

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

**Hilltop Securities Inc.**  
**Supplemental Schedule II – Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934**  
**December 31, 2018**

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*(in thousands)*

**Credit balances:**

Free credit balances and other credit balances in customers' security accounts	\$ 540,868
Monies borrowed collateralized by securities carried for the accounts of customers	2
Monies payable against customers' securities loaned	29,387
Customers' securities failed to receive	72,315
Credit balances in firm accounts which are attributable to principal sales to customers	3,395
Other	78,518
Total credits	<u>724,485</u>

**Debit balances:**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	389,860
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	70,049
Failed to deliver of customers' securities not older than 30 calendar days	11,478
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts	73,499
Total debits	<u>544,886</u>
Less 3% haircut	<u>(16,347)</u>
Total debits	<u>528,539</u>
Excess of total credits over total debits	\$ <u><u>195,946</u></u>

Reserve requirement at December 31, 2018:

Amount of cash held in "Reserve Bank Accounts" at December 31, 2018	\$ 133,993
Cash deposit made within required time frames (January 2, 2019)	72,275
Amount of cash held in "Reserve Bank Accounts"	\$ <u><u>206,268</u></u>

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

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# Hilltop Securities Inc.

## Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 December 31, 2018

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State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2018 for which instructions to reduce to possession or control had been issued as of December 31, 2018 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	8
Market value	\$ <u><u>26,913</u></u>

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2018 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	-
Market value	\$ <u><u>-</u></u>

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**Hilltop Securities Inc.****Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934****December 31, 2018***(in thousands)***Credit balances:**

Free credit balances and other credit balances in PAB security accounts	\$ 119,594
Monies borrowed collateralized by securities carried for the accounts of PAB	145,000
Monies payable against PAB securities loaned	255
PAB securities failed to receive	2,372
Credit balances in firm accounts which are attributable to principal sales to PAB	4,721
Other	<u>1,505</u>
Total PAB credits	<u>273,447</u>

**Debit balances:**

Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	329,607
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver	48,674
Failed to deliver of PAB securities not older than 30 calendar days	<u>1,295</u>
Total PAB debits	<u>379,576</u>
Excess of total PAB debits over total PAB credits	\$ <u><u>(106,129)</u></u>

PAB reserve requirement at December 31, 2018 \$ -

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2018 filed with the Financial Industry Regulatory Authority on January 24, 2019.

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## Hilltop Securities Inc.'s Compliance Report

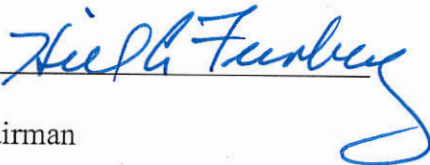
Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2018;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2018;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2018; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, Hill A. Feinberg, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By:



Chairman

February 21, 2019



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s (the "Company") assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

- (1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2018 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2018 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2018, and
- (4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2018, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2018, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2018 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

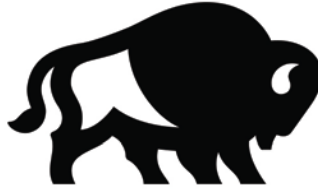
Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

*Princeton House Cooper LLP*

Dallas, Texas  
February 21, 2019

# HilltopSecurities



A Hilltop Holdings Company<sup>SM</sup>

## Hilltop Securities Inc.

**Financial Statements and Supplemental Schedules**

**Pursuant to Rule 17a-5 of the**

**Securities and Exchange Commission**

**For the Year Ended December 31, 2017**

**With Report of Independent Registered Public Accounting Firm**

This report is deemed CONFIDENTIAL in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934  
A statement of financial condition, compliance report and examination report,  
bound separately, have been filed with the  
Securities and Exchange Commission  
simultaneously herewith as a Public Document.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2017 AND ENDING December 31, 2017  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hilltop Securities Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1201 Elm Street, Suite 3500

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street) (City) (State) (Zip Code)  
Dallas TX 75270  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Laura Leventhal 214-859-1026  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers

(Name - if individual, state last, first, middle name)  
2001 Ross Ave, Suite 1800 Dallas TX 75201  
(Address) (City) (State) (Zip Code)

CHECK ONE:

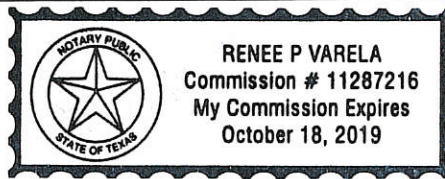
- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Hill A. Feinberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hilltop Securities Inc., as of December 31, 2017, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Hill A. Feinberg  
Signature

Chief Executive Officer

Title

Renee P. Varela  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

# Hilltop Securities Inc.

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December 31, 2017

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### **Supplemental Schedules**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of Hilltop Securities Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Hilltop Securities Inc. as of December 31, 2017, and the related statements of operations, stockholder's equity, cash flows, and changes in subordinated borrowings for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplemental Information***

The accompanying information contained in Schedules I, II, III and IV is supplemental information required by Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. The supplemental information is the responsibility of the Company's management. The supplemental information has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information contained in Schedules I, II, III and IV is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*

February 22, 2018

We have served as the Company's or its predecessor auditor since 2013.

**Hilltop Securities Inc.**  
**Statement of Financial Condition**  
**December 31, 2017**

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*(dollars in thousands, except par and redemption values)*

**Assets**

Cash	\$	12,655
Assets segregated for regulatory purposes		186,578
Receivable from brokers, dealers and clearing organizations (including \$75 due from affiliates)		1,776,768
Receivable from clients, net of allowance of \$353		379,101
Securities owned, at fair value		720,864
Securities purchased under agreements to resell		186,537
Goodwill		7,008
Customer intangible, net of accumulated amortization of \$9,399		7,401
Fixed assets, at cost, less accumulated depreciation of \$12,732		16,330
Net deferred tax asset		10,741
Other assets (including \$1,974 due from affiliates)		64,484
Total assets	\$	<u>3,368,467</u>

**Liabilities and Stockholder's Equity**

Short-term borrowings	\$	315,500
Payable to brokers, dealers, and clearing organizations (including \$457 due to affiliates)		1,288,020
Payable to clients (including \$300 clearing deposit due to affiliate)		531,021
Drafts payable		25,152
Securities sold, not yet purchased, at fair value		232,821
Securities sold under agreements to repurchase		409,058
Notes payable due to affiliate		74,652
Subordinated debt due to affiliate		42,000
Accrued expenses and other liabilities (including \$10,799 due to affiliates)		134,768
Total liabilities		<u>3,052,992</u>

**Stockholder's equity:**

Series A preferred stock, \$20 par value, \$1,000 redemption value; authorized 100,000 shares; no shares issued and outstanding		-
Class A voting common stock of \$1 par value; authorized 10,000 shares; issued and outstanding 2,820 shares		3
Class B nonvoting common stock of \$1 par value; authorized 10,000 shares; none issued		-
Additional paid-in capital		287,678
Retained earnings		27,794
Total stockholder's equity		<u>315,475</u>
Total liabilities and stockholder's equity	\$	<u>3,368,467</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Operations**  
**Year Ended December 31, 2017**

---

*(in thousands)*

Revenues:

Investment banking, advisory and administrative fees	\$	129,347
Net gains on principal transactions		91,114
Commissions		83,692
Interest		83,092
Net revenues from clearing operations		13,955
Other		12,174
Total revenues		<u>413,374</u>

Expenses:

Commissions and other employee compensation	220,158
Interest	47,299
Occupancy, equipment and computer service costs	39,811
Communications	15,550
Floor brokerage and clearing organization charges	6,551
Advertising and promotional	5,790
Other	26,026
Total expenses	<u>361,185</u>

Income before income tax expense 52,189

Income tax expense	23,701
Net income	<u>\$ 28,488</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Statement of Stockholder's Equity**  
**Year Ended December 31, 2017**

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*(dollars in thousands)*

	<b>Class A Voting Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at December 31, 2016	2,820	\$ 3	\$ 275,465	\$ (694)	\$ 274,774
Net income (loss)	-	-	-	28,488	28,488
Capital contribution from Hilltop Securities Holdings Inc.	-	-	11,000	-	11,000
Restricted stock plan	-	-	1,213	-	1,213
Balance at December 31, 2017	<u>2,820</u>	<u>\$ 3</u>	<u>\$ 287,678</u>	<u>\$ 27,794</u>	<u>\$ 315,475</u>

The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2017**

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(in thousands)

Cash flows from operating activities:

Net income	\$ 28,488
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income tax expense	21,339
Depreciation and amortization	7,232
Loss on sale of fixed assets	9
Compensation expense for restricted stock	1,615
Provision for doubtful accounts	197
Changes in operating assets and liabilities:	
Assets segregated for regulatory purposes	(5,585)
Brokers, dealers and clearing organizations accounts, net	(100,512)
Client accounts, net	28,788
Securities owned, at fair value	(474,375)
Securities purchased under agreements to resell	(97,107)
Other assets	(2,864)
Drafts payable	(1,619)
Securities sold, not yet purchased	78,932
Accrued expenses and other liabilities	(25,563)
Net cash used in operating activities	<u>(541,025)</u>

Cash flows from investing activities:

Purchase of fixed assets	(6,844)
Proceeds from sale of fixed assets	4
Net cash used in investing activities	<u>(6,840)</u>

Cash flows from financing activities:

Payments on short-term borrowings	(3,782,600)
Cash proceeds on short-term borrowings	3,963,100
Payments on loans payable to Hilltop Securities Holdings Inc.	(13,475)
Capital contribution from Hilltop Securities Holdings Inc.	11,000
Cash proceeds on securities sold under agreements to repurchase	369,089
Net cash provided by financing activities	<u>547,114</u>

Net change in cash (751)

Cash at beginning of year 13,406

Cash at end of year \$ 12,655

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ <u><u>45,271</u></u>
Cash paid for taxes, net of refunds	\$ <u><u>6,896</u></u>

Supplemental disclosure of non-cash activities:

Forfeitures of restricted stock awards	\$ <u><u>402</u></u>
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The accompanying notes are an integral part of this financial statement.

*Confidential*

**Hilltop Securities Inc.**  
**Statement of Changes in Subordinated Borrowings**  
**Year Ended December 31, 2017**

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*(in thousands)*

Subordinated borrowings at December 31, 2016	\$	42,000
Increases		-
Decreases		-
Subordinated borrowings at December 31, 2017	\$	<u>42,000</u>

The accompanying notes are an integral part of this financial statement.  
*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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**1. Organization**

Hilltop Securities Inc. (the "Company"), a Delaware Company and a wholly owned subsidiary of Hilltop Securities Holdings LLC ("Securities Holdings"), a wholly owned subsidiary of Hilltop Holdings Inc. ("Parent"), is a New York Stock Exchange ("NYSE") member broker/dealer, a registered investment advisor and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with the Securities and Exchange Commission (the "SEC") as a broker/dealer under the Securities Exchange Act of 1934 ("Exchange Act") and as a registered investment advisor under the Investment Advisors Act of 1940. The Company is also registered with the Commodity Futures Trading Commission ("CFTC") as a non-guaranteed introducing broker and is a member of the National Futures Association ("NFA").

Pursuant to the SEC Rule 11(a) of the Exchange Act, over 50% of the Company's revenues are comprised of Section 11(a) items, indicating the Company is primarily engaged in trading on behalf of customers.

**2. Summary of Significant Accounting Policies**

**Securities Transactions**

Proprietary securities transactions are recorded on trade date, as if they had settled. Clients' securities and commodities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

Marketable securities are valued at fair value, based on quoted market prices, and securities not readily marketable are valued at fair value as determined by management. The Company evaluates fair value measurements by considering observable data that may include prices from independent pricing services, dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, and the financial instruments' terms and conditions, among other factors. The increase or decrease in net unrealized appreciation or depreciation of securities owned is credited or charged to operations and is included in net gains on principal transactions in the Statement of Operations. Interest income is recorded on these securities when earned.

**Fixed Assets and Depreciation**

Fixed assets are comprised of furniture and equipment (\$20,775) and leasehold improvements (\$8,287) which are stated at cost. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (from three to seven years), and depreciation on leasehold improvements is provided over the shorter of the useful life or the lease term (up to fifteen years) using the straight-line method. Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

**Goodwill and Customer Intangible**

The Parent performs required annual impairment tests of its goodwill as of October 1st for each of its reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. As of January 1, 2017, the Parent adopted the provisions of Accounting Standard Update ("ASU") 2017-04 which removes Step 2 from the goodwill impairment test

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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and eliminates the determination of goodwill impairment through calculation of the implied fair value when the carrying amount of a reporting unit exceeds its fair value. The goodwill impairment test requires the Parent to make judgments in determining what assumptions to use in the calculation. The process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts and recent industry transaction and trading multiples of the Parent's peers, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, the Parent will recognize an impairment charge, pushed down to the reporting unit, for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit.

At October 1, 2017, the Parent determined that the estimated fair value of each of its reporting units, including the Company, exceeded its carrying value. As a result, the Parent concluded that the Company's goodwill was fully realizable, indicating no impairment of the Company's goodwill.

The Company recorded two separate customer relationship intangibles as part of the acquisition of the Company by the Parent in November 2012 and the merger with the Parent in January 2015, which are being amortized over a 12 and 14 year period, respectively, at a rate based on the sum of the years digits.

Intangible assets with indefinite useful lives are tested for impairment annually as of October 1st, or more often if events or circumstances indicate there may be impairment, and not amortized until their lives are determined to be definite by the Parent. If impaired, the intangible assets are recorded at fair value.

The Company did not determine that an impairment for the Company's intangible assets was deemed necessary upon their evaluation on October 1, 2017.

The estimated aggregate future amortization expense for the customer relationship at December 31, 2017 is as follows:

2018	\$	1,474
2019		1,302
2020		1,130
2021		958
2022		786
Thereafter		1,751
	\$	<u>7,401</u>

**Resale and Repurchase Agreements**

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Interest payable and interest receivable on these amounts are included in the Statement of Financial Condition in other liabilities and other assets, respectively.

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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**Securities Borrowing and Lending Activities**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received adjusted for additional collateral obtained or received. Securities borrowed and securities loaned, as well as the interest accrued on such transactions are included in the Statement of Financial Condition in receivables from and payables to brokers, dealers and clearing organizations. Interest revenue and interest expense on securities borrowed and securities loaned transactions are included in the Statement of Operations in interest revenue and interest expense, respectively.

**Investment Banking and Advisory Fees**

Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking management fees are recorded on offering date, sales concessions on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable. Investment advisory fees are recorded when earned based on the period-end assets in customer accounts.

**Net Revenues from Clearing Operations**

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and Hilltop Securities Independent Network Inc. ("HTIN"), an affiliate and charges fees for its services. Net revenues from clearing operations are recorded net of commissions remitted.

**Insurance**

The Company received insurance fees from Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. (collectively, "SWS Insurance") of \$2,897, included in other income in the Statement of Operations, for the year ended December 31, 2017. Southwest Financial Insurance Agency, Inc. and Southwest Insurance Agency, Inc. are affiliates of the Company. These entities hold insurance agency licenses for the purpose of facilitating the sale of insurance and annuity products. The Company retains no underwriting risk related to the insurance and annuity products sold.

**Drafts Payable**

In the normal course of business, the Company uses drafts to make payments relating to its brokerage transactions. These drafts are presented for payment through an unaffiliated bank and are sent to the Company daily for review and acceptance. Upon acceptance, the drafts are paid and charged against cash.

**Cash Flow Reporting**

For purposes of the statement of cash flows, the Company considers cash to include cash on hand and in bank accounts. In addition, highly liquid debt instruments purchased with maturities of three months or less, when acquired, are considered to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts up to \$250. At December 31, 2017, the cash balances included \$11,363 that was not federally insured because they exceeded federal insurance limits. This at-risk

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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amount is subject to fluctuation on a daily basis, but management does not believe there is significant risk on these deposits.

Assets segregated for regulatory purposes are not included as cash equivalents for purposes of the statement of cash flows because such assets are segregated for the benefit of customers only.

**Derivative Financial Instruments**

Derivative financial instruments arise from the execution of forward purchase commitments of mortgage-backed securities with certain clients that allow those clients to make mortgage loans at agreed-upon rates. The Company hedges the interest rate risk generated by the forward purchase commitments by executing forward sales of to-be-announced mortgage-backed securities (TBA). The amount hedged is influenced by the Company's estimated ratio of the forward purchase commitments that will not be securitized into mortgage-backed securities as part of the program (fallout rate). The Company uses historical experience, changes in interest rates, and other factors to determine the fallout rate.

Additionally, the Company enters into TBA agreements to assist clients (generally small to mid-size mortgage loan originators) in hedging the interest rate risk associated with the mortgages owned by the clients. In general, the Company will enter into a TBA purchase agreement with the client and then immediately enter into a TBA sale agreement with identical terms and the same settlement date with a separate counter-party.

While both the forward purchase commitments and TBAs meet the definition of a derivative under the provisions of the Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging," they do not qualify for hedge accounting. However, the Company mitigates interest rate risk and volatility in reported earnings by selling TBAs with characteristics similar to the forward purchase commitments of mortgage-backed securities. The securities are carried at fair value and recorded in other assets and other liabilities in the Statement of Financial Condition with unrealized and realized gains recorded in net gains/losses on principal transactions in the Statement of Operations.

**Income Taxes**

The Company files a consolidated federal income tax return with its Parent. For purposes of these financial statements, income taxes are computed on the benefits-for-loss method.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Fair Value of Financial Instruments**

Fair value accounting establishes a framework for measuring fair value. Under fair value accounting, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date in the principal market in which the reporting entity transacts. Further, fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, fair value accounting

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in an active market for identical assets or liabilities. Assets and liabilities utilizing Level 1 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio. Valuation of these instruments does not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Assets and liabilities utilizing Level 2 inputs include certain inventories held in the Company's securities owned and securities sold, not yet purchased portfolio and the Company's commitments to purchase and sell TBA derivative securities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying observable market assumptions.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. These assets and liabilities would have significant inputs that could not be validated by readily determinable market data and generally would involve considerable judgment by management. The Company does not have any financial instrument assets or liabilities utilizing Level 3 inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Condition, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Securities Owned and Securities Sold, Not Yet Purchased Portfolio (including the Company's derivative TBA securities).***

Securities classified as Level 1 securities primarily consist of financial instruments whose values are based on quoted market prices in active markets such as corporate equity securities and U.S. government and government agency obligations primarily in U.S. treasury securities.

Securities classified as Level 2 securities include financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including time value, yield curve, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are

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executed in the marketplace. Securities in this category include corporate obligations, U.S. government and government agency obligations, municipal obligations, unit investment trusts (UIT) and the Company's commitments to purchase and sell TBA derivative securities.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate current fair value.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The Company has performed an evaluation of subsequent events from January 1, 2018 through February 22, 2018, the date of issuance of the financial statements. There have been no subsequent events that would require recognition or disclosure in the financial statements as of December 31, 2017.

**3. Assets Segregated For Regulatory Purposes**

At December 31, 2017, the Company held cash of \$186,578 segregated in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Exchange Act Rule 15c3-3").

**4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations**

At December 31, 2017, the Company had receivable from and payable to brokers, dealers and clearing organizations related to the following:

**Receivable:**

Securities borrowed	\$	1,386,821
Correspondent broker/dealers		226,701
Clearing organizations		85,614
Securities failed to deliver		25,491
Trades in process of settlement, net		29,412
Other		22,729
	\$	<u>1,776,768</u>

**Payable:**

Securities loaned	\$	1,215,093
Securities failed to receive		37,864
Correspondent broker/dealers		30,160
Other		4,903
	\$	<u>1,288,020</u>

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The Company participates in the securities borrowing and lending business by borrowing and lending securities other than those of its clients. Securities borrowed and loaned represent deposits made to or received from other broker/dealers relating to these transactions. These deposits approximate the market value of the underlying securities. All open positions are adjusted to market values daily. The Company obtains or releases collateral as prices of the underlying securities fluctuate.

The Company clears securities transactions for correspondent broker/dealers. Proprietary settled securities and related transactions for these correspondents are included in the receivable from and payable to brokers, dealers and clearing organizations. At December 31, 2017, the Company held collateral for the receivables from correspondents in the amount of \$317,388.

Securities failed to deliver and receive represent the contractual value of securities that have not been delivered or received subsequent to settlement date.

Certain securities lending arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these receivables and payables subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2017:

				<b>Gross amounts not offset in the statement of financial condition</b>		
<b>Description</b>	<b>Gross amounts of recognized assets/ liabilities (2)</b>	<b>Gross amounts offset in the statement of financial condition</b>	<b>Net amounts of assets/liabilities presented in the statement of financial condition</b>	<b>Financial instruments (3)</b>	<b>Cash Collateral</b>	<b>Net Amount</b>
Securities borrowed	\$ 1,386,821	\$ -	\$ 1,386,821	\$ (1,327,536)	\$ -	\$ 59,285
Securities loaned <sup>(1)</sup>	1,215,093	-	1,215,093	(1,157,198)	-	57,895

<sup>(1)</sup>Under securities lending agreements, the Company repledged \$1,173,705.

<sup>(2)</sup>Securities borrowed and loaned are not presented net on the Statement of Financial Condition.

<sup>(3)</sup>Amounts reflect fair value of underlying collateral.

**Securities Lending Activities.** The Company's securities lending activities includes lending securities for other broker/dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker/dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending

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transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. The Company's management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

The following table presents the remaining contractual maturities of securities lending transactions accounted for as secured borrowings at December 31, 2017:

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	
<b>Securities lending transactions</b>					
Corporate securities	\$ 11,499	\$ -	\$ -	\$ -	\$ 11,499
Equity securities	1,203,594	-	-	-	1,203,594
<b>Total borrowings</b>	<b>\$ 1,215,093</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,215,093</b>
Gross amount of recognized liabilities for securities lending					\$ 1,215,093
Amount related to agreements not included in offsetting disclosure					\$ -

## 5. Receivable From and Payable to Clients

Receivable from and payable to clients include amounts due on cash and margin transactions. Included in these amounts are receivable from and payable to noncustomers (as defined by Exchange Act Rule 15c3-3, principally officers, directors and related accounts), which aggregated approximately \$1,385 and \$101, respectively, at December 31, 2017. Securities accounts of noncustomers are subject to the same terms and regulations as those of customers. Securities owned by customers and noncustomers that collateralize the receivables are not reflected in the accompanying financial statements.

The Company pledges client securities as collateral in conjunction with the Company's securities lending activities. At December 31, 2017, the Company has approximately \$489,725 of client securities under customer margin loans that are available to be pledged, of which the Company has repledged approximately \$41,388 under securities loan agreements.

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The Company pays interest on certain customer “free credit” balances available for reinvestment. The aggregate balance of such funds was approximately \$411,771 at December 31, 2017. At December 31, 2017 and during the year ended December 31, 2017, the weighted average interest rate was 0.09% and the interest rate paid on these balances ranged from 0.05% to 0.20%.

The Company maintains an allowance for doubtful accounts of \$353 which represents amounts that, in the judgment of management, are necessary to adequately absorb losses from known and inherent risks in receivables from customers. Provisions made to this allowance are charged to operations. At December 31, 2017, all unsecured customer receivables had been provided for in this allowance.

**6. Securities Owned and Securities Sold, not yet Purchased**

At December 31, 2017, securities owned and securities sold, not yet purchased, both of which are carried at fair value, included the following:

**ASSETS**

**Securities owned:**

U. S. government agencies:

Bonds	\$	52,078
Residential mortgage-backed securities		372,388
Collateralized mortgage obligations		5,122
Commercial mortgage-backed securities		60

Corporate debt securities 96,182

States and political subdivisions 170,413

Unit investment trusts:

Corporate securities	14,586
Municipal securities	8,026

Private-label issuers:

Mortgage-backed securities	403
Asset-backed securities	1,228

Certificates of deposit 367

Options 9

Equity securities 2

\$ 720,864

**LIABILITIES**

**Securities sold, not yet purchased:**

U. S. treasury securities \$ 147,639

U. S. government agencies:

Bonds 11,201

Corporate debt securities 65,034

Equity securities 8,947

\$ 232,821

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At December 31, 2017, none of the above securities were pledged as security deposits at clearing organizations for the Company's clearing business. Additional securities have been pledged to secure short-term borrowings, see **Note 10**.

**7. Derivative Financial Instruments**

The Company participates in programs in which it issues forward purchase commitments of mortgage-backed securities to certain clients and sells TBAs as described in **Note 2**. At December 31, 2017, the Company's derivative positions associated with its TBA program are presented below:

	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
Commitments to purchase TBAs	\$ 2,831,635	\$ (921)
Commitments to sell TBAs	2,965,986	3,202

Certain derivative arrangements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts at December 31, 2017:

				<u>Gross amounts not offset in the statement of financial condition</u>		
<u>Description</u>	<u>Gross amounts of recognized assets/ liabilities</u>	<u>Gross amounts offset in the statement of financial condition</u>	<u>Net amounts of assets/liabilities presented in the statement of financial condition</u>	<u>Financial instruments</u>	<u>Cash Collateral</u>	<u>Net Amount</u>
Derivative asset--TBA	\$ 3,576	\$ -	\$ 3,576	\$ (3,576)	\$ -	\$ -
Derivative liability--TBA	1,295	-	1,295	(1,295)	-	-

**8. Fair Value of Financial Instruments**

The following table summarizes by level within the fair value hierarchy securities owned, at fair value, securities sold, not yet purchased, at fair value and derivative securities as of December 31, 2017:

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Securities owned, at fair value</b>				
U. S. government agencies:				
Bonds	\$ -	\$ 52,078	\$ -	\$ 52,078
Residential mortgage-backed securities	-	372,388	-	372,388
Collateralized mortgage obligations	-	5,122	-	5,122
Commercial mortgage-backed securities	-	60	-	60
Corporate debt securities	-	96,182	-	96,182
States and political subdivisions	-	170,413	-	170,413
Unit investment trusts:				
Corporate securities	-	14,586	-	14,586
Municipal securities	-	8,026	-	8,026
Private-label issuers:				
Mortgage-backed securities	-	403	-	403
Asset-backed securities	-	1,228	-	1,228
Certificates of deposit	-	367	-	367
Options	-	9	-	9
Equity securities	2	-	-	2
	<u>\$ 2</u>	<u>\$ 720,862</u>	<u>\$ -</u>	<u>\$ 720,864</u>
<b>Derivative financial instruments</b>				
Commitments to purchase TBAs	<u>\$ -</u>	<u>\$ 3,576</u>	<u>\$ -</u>	<u>\$ 3,576</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>LIABILITIES</u></b>				
<b>Securities sold, not yet purchased, at fair value</b>				
U. S. treasury securities	\$ 147,639	\$ -	\$ -	\$ 147,639
U. S. government agencies:				
Bonds	-	11,201	-	11,201
Corporate debt securities	-	65,034	-	65,034
Equity securities	8,947	-	-	8,947
	<u>\$ 156,586</u>	<u>\$ 76,235</u>	<u>\$ -</u>	<u>\$ 232,821</u>
<b>Derivative financial instruments</b>				
Commitments to sell TBAs	<u>\$ -</u>	<u>\$ 1,295</u>	<u>\$ -</u>	<u>\$ 1,295</u>
<b>Net assets (liabilities)</b>	<u>\$ (156,584)</u>	<u>\$ 646,908</u>	<u>\$ -</u>	<u>\$ 490,324</u>

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At the end of each respective quarterly reporting period, the Company recognizes transfers of financial instruments between levels. During the year ended December 31, 2017, the Company did not have any transfers of financial instruments between levels.

Changes in unrealized gains (losses) and realized gains (losses) for corporate and municipal obligations and corporate equity securities are presented in net gains on principal transactions in the Statement of Operations. There were no unrealized gains (losses) included in earnings related to assets and liabilities still held at December 31, 2017 for the year ended December 31, 2017.

## **9. Securities Purchased/Sold Under Agreements to Resell/Purchase**

At December 31, 2017, the Company held reverse repurchase agreements, collateralized by U.S. government and government agency obligations and securities sold under repurchase agreements. These securities are reported on a gross basis in the Statement of Financial Condition.

Securities sold under repurchase agreements, which are secured borrowings, generally mature overnight with some maturing up to 30 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Certain reverse repurchase and repurchase agreements may be eligible for offset in the statement of financial condition and /or subject to master netting arrangements or similar agreements.

The following table provides information about these instruments subject to an enforceable master netting arrangement, repurchase agreements or similar agreements with offsetting rights and any related collateral amounts at December 31, 2017:

					Gross amounts not offset in the statement of financial condition							
		Gross amounts of recognized assets/liabilities	Gross amounts offset in the statement of financial condition	Net amounts of assets/liabilities presented in the statement of financial condition		Financial instruments <sup>(1)</sup>	Cash Collateral	Net Amount				
Description												
Reverse repurchase agreements	\$	186,537	\$	-	\$	186,537	\$	(186,026)	\$	-	\$	511
Repurchase agreements		409,058		-		409,058		(409,058)		-		-

<sup>(1)</sup>Amounts reflect fair value of underlying collateral.

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The following table presents the remaining contractual maturities of repurchase agreements accounted for as secured borrowings at December 31, 2017:

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	
<b>Repurchase agreements</b>					
U.S. treasury and agency securities	\$ 51,824	\$ -	\$ -	\$ -	\$ 51,824
Asset backed securities	357,234	-	-	-	357,234
Total borrowings	\$ 409,058	\$ -	\$ -	\$ -	\$ 409,058
Gross amount of recognized liabilities for repurchase agreements					\$ 409,058
Amount related to agreements not included in offsetting disclosure					\$ -

## 10. Short-Term Borrowings

### Uncommitted lines of credit

The Company has credit arrangements with commercial banks, which include broker loan lines up to \$725,000. These lines of credit are used primarily to finance securities owned, securities held for correspondent broker/dealer accounts, receivables in customers' margin accounts and underwriting activities. These lines may also be used to release pledged collateral against day loans. These credit arrangements are provided on an "as offered" basis and are not committed lines of credit. These arrangements can be terminated at any time by the lender. Any outstanding balances under these credit arrangements are due on demand and bear interest at rates indexed to the federal funds rate (1.33% at December 31, 2017). At December 31, 2017, the amount outstanding under these secured arrangements was \$315,500, which was collateralized by securities held for firm and correspondent broker/dealer accounts valued at \$546,798.

### Committed lines of credit

At December 31, 2017, the Company had a \$50,000 committed revolving credit facility with an unaffiliated bank. The commitment fee is 25 basis points per annum, and when drawn, the interest rate is equal to the federal funds rate plus 100 basis points. The agreement requires the Company to maintain a tangible net worth of at least \$170,000. At December 31, 2017, there were no outstanding amounts under the committed revolving credit facility.

The Company pledges customer securities to the Option Clearing Corporation to support open customer positions. At December 31, 2017, the Company had pledged \$88,185 to support these open customer positions.

## 11. Note Payable Due to Affiliate & Subordinated Debt Due to Affiliate

In January 2016, the Company entered into an agreement with First Southwest Holdings LLC for a non collateralized, 10 year, \$88,127 promissory note paying interest semi-annually at a rate of 5% per annum and a \$42,000 subordinated loan agreement with Securities Holdings paying interest semi-annually at a

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rate of 4.35% per annum. Both the agreements were entered into as part of the merger of First Southwest Company, LLC ("FSC") with the Company. At December 31, 2017, there was \$116,652 outstanding under these agreements.

**12. Income Taxes**

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Legislation") was enacted. The Tax Legislation significantly revises the U.S. corporate income tax by lowering corporate income tax rates. Based on current available information, the Company estimates that the enactment of the Tax Legislation will result in an earnings charge to current tax expense of approximately \$5,634 for the year ending December 31, 2017. This charge is primarily due to the write down of its deferred tax assets as a result of the reduction in the corporate tax rate from 35% to 21% and other anticipated impacts associated with the Tax Act. The change resulting from the tax legislation is expected to be recovered through lower projected effective tax rates from a reduction of the corporate tax rate to 21%, offset by additional non-deductible expenses. The impact of the Tax Legislation may differ from this estimate, possibly significantly, due to, among other things, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation.

Income tax expense for the fiscal year ended December 31, 2017, (effective rate of 45.4%) differs from the amount that would otherwise have been calculated by applying the U.S. federal corporate tax rate (35%) to income before income taxes and is comprised of the following:

Income tax expense at the statutory rate	\$	18,266
Tax Legislation		5,634
State income taxes, net of federal tax benefit		772
Non-deductible expenses		304
Reserve for uncertain tax positions		42
Tax-exempt income, net		(876)
Share-based compensation benefit		(79)
Other, net		(362)
	\$	<u>23,701</u>

Income taxes as set forth in the statement of operations consist of the following components:

<b>Current</b>		
Federal	\$	2,613
State		(251)
		<u>2,362</u>
<b>Deferred</b>		
Federal	\$	19,900
State		1,439
		<u>21,339</u>
Total income tax expense	\$	<u>23,701</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 are presented below:

**Deferred tax assets:**

Compensation and benefits	\$	5,839
Deferred income		3,057
Realized built-in loss carryforward		2,564
Legal and other reserves		1,054
Other		860
Total gross deferred tax asset		<u>13,374</u>

**Deferred tax liabilities:**

Intangible assets		(1,734)
Other		(899)
Total gross deferred tax liability		<u>(2,633)</u>
Net deferred tax asset	\$	<u>10,741</u>

The Company assesses the ability to realize its deferred tax assets based upon the weight of available evidence, both positive and negative. To the extent the Company believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company will establish a valuation allowance. The Company evaluated the realizability of its deferred tax assets and concluded, based on the Company's past history of profitability and future earnings projections, that a valuation allowance was not required.

At December 31, 2017, the Company had recognized built-in losses ("RBIL") of \$2,564 from the 2015 merger with the Parent. At December 31, 2017, the Company had net operating loss ("NOL") carryforwards for state income tax purposes of \$816. These net operating loss carryforwards expire in 2030 and later years. The RBILs and NOLs are expected to be fully realized prior to any expiration.

At December 31, 2017, the total amount of gross unrecognized tax benefits was \$162, if recognized, and the total amount that would favorably impact the Company's effective tax rate and reduce income tax expense was \$128.

The aggregate changes in gross unrecognized tax benefits, which exclude interest and penalties, are as follows:

<b>Balance at December 31, 2016</b>	\$	281
Increases related to tax positions taken during a prior year		49
Decreases related to tax positions taken during a prior year		(236)
Increases related to tax positions taken during the current year		68
<b>Balance at December 31, 2017</b>	\$	<u>162</u>

Interest and penalties incurred related to tax matters are charged to other interest expense or other noninterest expense, respectively. There is no accrued interest and penalties, net of federal benefit included in the net liability at December 31, 2017.

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With limited exception, the Company is no longer subject to U.S. federal, state or local tax audits by taxing authorities for years preceding 2014.

The amount of current federal and state taxes receivable from the Parent included in other assets on the Statement of Financial Condition was \$12,887 and \$2,099, respectively, at December 31, 2017.

### **13. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that it maintain minimum net capital, as defined in Rule 15c3-1 under the Exchange Act, equal to the greater of \$1,000 or 2% of aggregate debit balances, as defined in Exchange Act Rule 15c3-3. At December 31, 2017, the Company had net capital of approximately \$186,770 which is approximately \$176,257 in excess of its minimum net capital requirement of approximately \$10,513 at that date. Additionally, the Rule provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2017, the Company had net capital of approximately \$160,487 in excess of 5% of aggregate debit items.

### **14. Affiliate Transactions**

The Company clears all customer transactions for HTIN, an affiliate. Based on an agreement with this entity, the Company receives a fee for clearing HTIN trades. The net amount of fees received by the Company for clearing trades for this entity was approximately \$478 for the year ended December 31, 2017. The Company also provides all accounting, administrative services, management services and office facilities to HTIN in accordance with an expense sharing agreement in the amount of \$50 per year. Additionally, the Company collects all revenues and pays all expenses on behalf of HTIN.

The Company, as clearing broker for its affiliate, has the right to charge customer losses back to the affiliate.

Clients and correspondents of the Company have the option to invest in a savings account called Bank Insured Deposits at the Company's banking affiliate, PlainsCapital Bank ("Bank"). These funds are FDIC insured up to \$250. For the year ended December 31, 2017, the Company received a maintenance fee of \$9,081 on these bank insured funds from the Bank.

The Bank charges the Company a processing fee for client checks written on money market accounts. The fee paid to the Bank for this service was \$110 for the year ended December 31, 2017, included in other expense on the Statement of Operations.

The Company makes loans to employees, primarily financial advisors, mainly for recruiting and retention purposes. The amount of loans to employees is included in other assets in the Statement of Financial Condition in the amount of \$18,821 for which the Company has recorded an allowance, included in other liabilities in the Statement of Financial Condition, of \$2,344 for terminated relationships.

The Company is named as the lessee for two leases which are subleased to the Bank. During the year ended December 31, 2017, the Company received and recorded in other revenue on the Statement of

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Operations \$94 of rental income for these subleases with the Bank. Additionally, the Company subleases office space and utilizes space in a property owned by the Bank for its business recovery centers. During the year ended December 31, 2017, the Company paid and recorded in occupancy, equipment and computer service costs on the Statement of Operations \$111 of rental expense for these subleases with the Bank.

Securities Holdings loaned the Company \$42,000 as part of a merger transaction between the Company and FSC. The Company paid interest at a rate of 4.35% per annum. During the year ended December 31, 2017, the Company paid interest of \$1,852. Additionally, as part of this transaction, in January 2016, First Southwest Holdings LLC loaned the Company \$88,127, (see **Note 11**). The Company paid interest at a rate of 5% per annum. During the year ended December 31, 2017, the Company paid interest of \$4,232.

The Company has various expense sharing arrangements with the Parent, Securities Holdings and other subsidiaries of the Parent. These expense sharing agreements outline the types of expenses that will be passed through to the Company, including but not limited to compensation expense, use of Parent assets, and administrative services performed by the Parent or subsidiaries of the Parent. On the Statement of Financial Condition, the total receivable includes \$911 from the Bank, \$911 from First Southwest Holdings LLC and its subsidiaries, \$111 from Southwest Insurance Agency, \$75 from HTIN, which is reported in receivable from brokers, dealers, and clearing organizations and \$41 from the National Lloyds Corporation, a wholly owned subsidiary of the Parent. The total payable includes \$8,420 to Securities Holdings, \$1,223 to Southwest Insurance Agency, \$846 to First Southwest Holdings LLC and its subsidiaries, including \$457, which is reported in payable to brokers, dealers, and clearing organizations on the Statement of Financial Condition, \$767 to the Parent and a \$300 clearing deposit to HTIN, which is reported in payable to clients on the Statement of Financial Condition.

## **15. Employee Benefits**

The Parent has a defined contribution retirement plan pursuant to Section 401 of the Internal Revenue Code (the Code) whereby eligible participants may elect to contribute a percentage of their compensation up to a maximum allowed under the Code. In addition, the plan also provides for a matching contribution by the Company based on a percentage of participants' contributions. The Company's matching contributions vest in three equal annual installments and the expense totaled approximately \$2,897 for the year ended December 31, 2017.

On January 1, 2015, under the terms of the merger agreement, the Parent's stockholders, including the Company's officers and employees who held stock issued under the SWS Group, Inc.'s, the former parent of the Company restricted stock plans, received per share consideration of 0.2496 shares of Hilltop common stock and \$1.94 of cash. Each restricted share of the Parent's common stock granted prior to the date of the merger agreement vested in full on January 1, 2015 and the holders of such restricted shares received the merger consideration for each such share on the same basis as the Parent's stockholders, less applicable withholding taxes, which were withheld first from the cash portion of the merger consideration payable in respect of each such share. The restricted shares of SWS Group, Inc. common stock converted into the right to receive an aggregate of 62,994 restricted shares of Hilltop Holdings Inc. common stock. The shares vesting schedule did not accelerate, generally vest in three equal annual installments beginning on August 20, 2015, and are subject to service conditions set forth in the award agreements, with associated costs recognized on a straight-line basis over the respective vesting periods.

*Confidential*

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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Pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the “2012 Plan”), the Parent may grant nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance awards, divided equivalent rights and other awards to employees of the Parent, its subsidiaries and outside directors of the Parent.

From May of 2013 through April of 2015, the compensation committee of the board of directors of the Parent (“Compensation Committee”) awarded certain executives and key employees of FSC a total of 60,000 restricted shares of common stock (“RSAs”) and 99,121 RSUs pursuant to the 2012 Plan. These RSAs and RSUs are subject to service conditions set forth in the grant agreements with associated costs recognized on a straight-line basis over the vesting period. The weighted average grant date fair value related to these RSAs and RSUs was \$17.94 per share, resulting in expected compensation expense of \$2,854.

During the year end December 31, 2015, the Compensation Committee awarded certain executives and key employees of the Company a total of 42,730 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was \$19.98 per share resulting in expected compensation expense of \$854.

During the year end December 31, 2016, the Compensation Committee awarded certain executives and key employees of the Company a total of 85,932 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was \$18.08 per share resulting in expected compensation expense of \$1,553.

During the year end December 31, 2017, the Compensation Committee awarded certain executives and key employees of the Company a total of 81,085 RSUs pursuant to the 2012 Plan. These awards and the associated costs are amortized over a vesting period of three years. The grant date weighted average fair value of these awards was \$26.28 per share resulting in expected compensation expense of \$2,131.

At December 31, 2017, the Company had unrecognized compensation expense related to restricted stock grants of approximately \$2,308. For the year ended December 31, 2017, the Company has recognized compensation expense of \$1,615 for all restricted stock granted to the Company’s employees.

Upon vesting of the shares granted under the Parent’s restricted stock plans, the grantees may choose to sell a portion of their vested shares to the Parent to cover the tax liabilities arising from the vesting.

## **16. Commitments and Contingencies**

**Leases.** The Company leases its offices and certain equipment under noncancelable operating lease agreements. The Company recognizes escalating lease payments on a straight line basis over the term of each respective lease with the difference between cash payment and rent expense recorded as deferred rent and included in other liabilities in the Statement of Financial Condition. Rental expense relating to the facilities and equipment leases for the year ended December 31, 2017 aggregated to \$11,868.

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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At December 31, 2017, the future rental payments for the noncancelable operating leases for each of the following five years and thereafter follows:

2018	\$	10,967
2019		10,321
2020		9,644
2021		6,234
2022		4,777
Thereafter		12,983
	\$	<u>54,926</u>

**Underwriting.** Through its participation in underwriting corporate and municipal securities, the Company could expose itself to material risk that securities the Company has committed to purchase cannot be sold at the initial offering price. Federal and state securities laws and regulations also affect the activities of underwriters and impose substantial potential liabilities for violations in connection with sales of securities by underwriters to the public. At December 31, 2017, the Company had no liabilities due under outstanding underwriting arrangements.

**Litigation.** In the general course of its brokerage business and the business of clearing for other brokerage firms, the Company has been named as a defendant in various lawsuits and arbitration proceedings. These claims allege violation of federal and state securities laws among other matters. Management believes that resolution of these claims will not result in any material adverse effect on the Company's financial position or results of operations.

**Guarantees.** The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual indemnifications and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is a member of multiple exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the financial statements for these arrangements.

## **17. Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of business, the Company engages in activities involving the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-

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**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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balance-sheet credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligation. Such risks may be increased by volatile trading markets.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to market risk if prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

The Company seeks to control the risks associated with its customers' activities, including those of customer accounts of its correspondents for which it provides clearing services, by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The required margin levels are monitored daily and, pursuant to such guidelines, customers are required to deposit additional collateral or to reduce positions when necessary.

A portion of the Company's customer activity involves short sales and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

At times, the Company lends money using reverse repurchase agreements. These positions are collateralized by U.S. government and government agency securities. Such transactions may expose the Company to off-balance-sheet risk in the event such borrowers do not repay the loans and the value of collateral held is less than that of the underlying receivable. These agreements provide the Company with the right to maintain the relationship between market value of the collateral and the receivable.

The Company arranges secured financing by pledging securities owned and unpaid customer securities for short-term borrowings to satisfy margin deposits of clearing organizations. The Company also actively participates in the borrowing and lending of securities. In the event the counterparty in these and other securities loaned transactions is unable to return such securities pledged or borrowed or to repay the deposit placed with them, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control the risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

## **18. Preferred Stock**

On October 17, 1997, the Company's Board of Directors ("Board") authorized 100,000 shares of preferred stock. Simultaneously, the Board designated 5,000 shares of the authorized preferred stock as Series A Preferred Stock. Up to 50 shares of the Series A Preferred Stock, which has a par value of \$20, can be issued to each of up to 100 qualified participants. Qualified participants are broker/dealers registered under the Exchange Act who clear their proprietary transactions through the Company and who represent that they are subject to net capital rules of the SEC and other self-regulatory organizations to which such broker/dealers report. The Series A Preferred Stock is nonvoting and nonconvertible to common stock, and it is entitled to noncumulative cash dividends when, as and if declared by the Board. The Series A Preferred Stock is redeemable at any time by the Company at a redemption price of \$1,000 per share.

**Hilltop Securities Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**  
*(dollars in thousands, except par and redemption values)*

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**19. Proprietary Accounts of Broker/Dealers (“PAB”) Reserve Requirements**

The Company performs calculations of PAB reserve requirements. At December 31, 2017, the Company did not have a PAB reserve requirement and has no amount on deposit.

## **Supplemental Schedules**

**Hilltop Securities Inc.****Supplemental Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 of  
The Securities Exchange Act of 1934 and Regulation 1.17 of the Commodity  
Futures Trading Commission  
December 31, 2017**

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*(in thousands)*

Total stockholder's equity from statement of financial condition	\$	315,475
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>42,000</u>
Total capital and allowable subordinated liabilities		<u>357,475</u>
Deductions and /or charges:		
Receivable from affiliates	\$	(2,049)
Fixed assets, net		(16,330)
Securities owned, not readily marketable		(2,582)
Other receivables from broker/dealers and clearing organizations		(14,040)
Other investments, not readily marketable		(3,017)
Other nonallowable assets		(80,881)
Aged fails to deliver		(299)
Aged short security differences		(8)
Other deductions and/or charges		<u>(5,649)</u>
		<u>(124,855)</u>
Net capital before haircuts on securities positions		232,620
Haircuts on securities positions		<u>(45,850)</u>
Net capital		186,770
Net capital requirement:		
Greater of 2% of aggregate debit items as shown in computation of special reserve requirement on Schedule II ( $\$525,660 \times 2\% = \$10,513$ ) or \$1,000		<u>10,513</u>
Excess net capital	\$	<u><u>176,257</u></u>
Net capital in excess of the greater of 5% of aggregate debit items or \$1,200	\$	<u><u>160,487</u></u>

Note: The above computation does not differ materially from the computation of net capital prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

**Hilltop Securities Inc.**  
**Supplemental Schedule II – Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934**  
**December 31, 2017**

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*(in thousands)*

**Credit balances:**

Free credit balances and other credit balances in customers' security accounts	\$ 556,429
Monies payable against customers' securities loaned	41,388
Customers' securities failed to receive	33,630
Credit balances in firm accounts which are attributable to principal sales to customers	4,028
Other	<u>60,020</u>
Total credits	<u>695,495</u>

**Debit balances:**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	377,716
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	71,594
Failed to deliver of customers' securities not older than 30 calendar days	20,037
Margin required and on deposit with the Options Clearing Corporation for all option contracts with or purchased in customer accounts	<u>56,313</u>
Total debits	<u>525,660</u>
Less 3% haircut	<u>(15,770)</u>
Total debits	<u>509,890</u>
Excess of total credits over total debits	<u>\$ 185,605</u>

Reserve requirement at December 31, 2017:

Amount of cash held in "Reserve Bank Accounts" at December 31, 2017	\$ 186,578
Cash deposit made within required time frames (January 2, 2018)	8,530
Amount of cash held in "Reserve Bank Accounts"	<u>\$ 195,108</u>

Note: The above computation does not differ materially from the computation of special reserve requirement prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

*Confidential*

# Hilltop Securities Inc.

## Supplemental Schedule III – Information for Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 December 31, 2017

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State the market valuation and the number of items of:

1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of December 31, 2017 for which instructions to reduce to possession or control had been issued as of December 31, 2017 but for which the required action was not taken by respondent within the time frames specified under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	9
Market value	\$ <u>64,567</u>

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2017 excluding items arising from "temporary lags which result from normal business operations" as permitted under Exchange Act Rule 15c3-3

*(dollars in thousands)*

Number of items	-
Market value	\$ <u>-</u>

*Confidential*

**Hilltop Securities Inc.****Supplemental Schedule IV – Reserve Computation for Proprietary Accounts of Broker/Dealers Pursuant to Exhibit A of Rule 15c3-3 of the Securities Exchange Act of 1934****December 31, 2017***(in thousands)***Credit balances:**

Free credit balances and other credit balances in PAB security accounts	\$ 120,271
Monies borrowed collateralized by securities carried for the accounts of PAB	109,000
Monies payable against PAB securities loaned	83
PAB securities failed to receive	3,784
Credit balances in firm accounts which are attributable to principal sales to PAB	4,290
Other	<u>2,600</u>
Total PAB credits	<u>240,028</u>

**Debit balances:**

Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	303,119
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver	50,461
Failed to deliver of PAB securities not older than 30 calendar days	<u>1,585</u>
Total PAB debits	<u>355,165</u>
Excess of total PAB debits over total PAB credits	\$ <u><u>(115,137)</u></u>

PAB reserve requirement at December 31, 2017 \$ -

Note: The above computation does not differ materially from the computation of the PAB requirement prepared by the Company as of December 31, 2017 filed with the Financial Industry Regulatory Authority on January 25, 2018.

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## Hilltop Securities Inc.'s Compliance Report

Hilltop Securities Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

1. The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
2. The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2017;
3. The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2017;
4. The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2017; and
5. The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

Hilltop Securities Inc.

I, Hill A. Feinberg, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: 

Chief Executive Officer

February 22, 2018



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Management of Hilltop Securities Inc.

We have examined Hilltop Securities Inc.'s (the "Company") assertions, included in the accompanying Hilltop Securities Inc.'s Compliance Report, that

- (1) the Company's internal control over compliance with the financial responsibility rules (as defined below) was effective during the year ended December 31, 2017 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (2) the Company's internal control over compliance with the financial responsibility rules was effective as of December 31, 2017 based on controls necessary to achieve the objectives of the financial responsibility rules,
- (3) the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2017, and
- (4) the information used to assert that the Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records.

The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3 (the "customer protection rule"), 17 C.F.R. § 240.17a-13 ("the quarterly securities count rule"), or Rule 2340 of National Association of Securities Dealers (the "account statements rule"), which requires account statements to be sent to the customers of the Company (collectively, the "financial responsibility rules") will be prevented or detected on a timely basis. The Company's management is also responsible for compliance with the net capital rule and the reserve requirements rule and that the information used to assert compliance was derived from the books and records. Our responsibility is to express an opinion on the Company's assertions based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether (1) the Company's internal control over compliance with the financial responsibility rules was effective as of and during the year ended December 31, 2017, (2) the Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2017, and (3) the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2017 was derived from the Company's books and records. Our examination included testing and evaluating the design and operating effectiveness of internal control over compliance with the financial responsibility rules, testing and evaluating the Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable

basis for our opinion. Our examination does not provide a legal determination on Hilltop Securities Inc.'s compliance with the financial responsibility rules.

Because of its inherent limitations, internal control over compliance may not prevent or detect non-compliance with the financial responsibility rules. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hilltop Securities Inc.'s assertions referred to above are fairly stated, in all material respects.

*PricewaterhouseCoopers LLP*

February 22, 2018

Since January 2018, the firm has participated in the following Series for the Programs:

**State of Mississippi Master Lease Purchase Programs**

- **Series 2018A Master Lease Program for State Agencies and School Districts, dated 6/29/2018**
  - \$3,415,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Revenue, Department of Agriculture & Commerce, Cleveland Municipal School District, North Panola School District
  - Aggregate Equipment Amount - \$3,350,547
- **Series 2018B Master Lease Program for State Agencies and School Districts, dated 10/18/2018**
  - \$3,685,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Transportation, Alcorn School District
  - Aggregate Equipment Amount - \$3,624,250
- **Series 2019A Master Lease Program for State Agencies and School Districts, dated 7/18/2019**
  - \$4,105,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Department of Corrections, Board of Animal Health, Cleveland School District, Greene County School District
  - Aggregate Equipment Amount - \$4,037,213.04
- **Series 2020A Master Lease Program for State Agencies and School Districts, dated 3/5/2020**
  - \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Ellisville State School, Copiah-Lincoln Community College District
  - Aggregate Equipment Amount - \$1,277,532
- **Series 2020B Master Lease Program for State Agencies, dated 12/17/2020**
  - \$1,945,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - Ellisville State School, Boswell Regional Center, Board of Animal Health
  - Aggregate Equipment Amount - \$1,906,712

**Mississippi Institutions of Higher Learning**

- **Tax-Exempt Series 2020A Master Lease Program for State Universities, dated 7/10/2020**
  - \$5,670,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - \$5,591,349
- **Taxable Series 2020B Master Lease Program for State Universities, dated 7/10/2020**
  - \$1,735,000 Privately-Placed Lease Revenue Certificates of Participation (unrated; uninsured)
  - Participating Users - University of Mississippi Medical Center
  - Aggregate Equipment Amount - \$1,700,000

## **Suggested Closing Schedule for a Competitive Sale of State of Mississippi Lease Revenue Certificates of Participation)**

The following is an optimal timetable and assumes a competitively-bid series of COPs under the documentation for the existing Program; note, however, that the schedule is subject to change based on a number of factors. For instance, the time period between distribution of the demand survey and the deadline to return the survey forms may be decreased or increased, which affects the final timing of the series.

### **Ongoing**

- As necessary, HilltopSecurities will conduct informational/educational one-on-one Participating User meetings.

### **Weeks 1-2**

- Prepare and distribute Demand Survey to Participating Users

### **Week 3**

- Deadline for Participating Users to return demand survey forms. Deadline for collecting equipment descriptions from Participating Users
- Draft documents distributed to DFA, rating agency, insurer (if required), special tax counsel, trustee, Participating Users and Office of the Attorney General
- Draft notice to The Bond Buyer
- Submit draft preliminary offering circular to I-deal

### **Week 4**

- Notice published in The Bond Buyer
- I-deal electronically distributes the Preliminary Offering Circular to prospective underwriters

### **Week 5**

- Coordinate with the Office of Bond Advisory to conduct competitive sale of the COPs. Receive bids, calculate results; make award
- Contact winning underwriter. Obtain Underwriter's Certificate. Confirm number of final offering circulars needed and delivery addresses
- Prepare final offering circulars, submit to I-deal for printing and distribution
- Amortization Schedules are prepared and incorporated into the final documents. Coordinate with DFA to schedule pre-closing

### **Week 6**

- Preclose in Jackson, Mississippi, typically the day before settlement
- Settlement and Funding

### **Post-Closing**

- Copy, assemble and distribute closing transcripts
- File Form 8038-G with Internal Revenue Service
- Complete and file UCC Financing Statements

Note that the above schedule can be condensed for negotiated or an unrated / privately-placed series.

**STATE OF MISSISSIPPI - 06.0672ML/Series 2018A**

Funded: 06/29 Matures: 4/15/2028

Trustee: US Bank

08/19/21

DISB #	DISB DATE	VENDOR	DEBIT AMOUNT	DISB AMOUNT	BALANCE
<b>DEPT OF AGRICULTURE &amp; COMMERCE</b>			<b>a/c #238925003</b>		
				1,500,000.00	1,500,000.00
DAC-01	09/25/18	MNJ Technologies	84,971.66	1,415,028.34	
DAC-02	01/15/19	MNJ Technologies	2,226.22	1,412,802.12	
DAC-03	02/19/19	MNJ Technologies	2,808.06	1,409,994.06	
DAC-04	03/07/19	Business Furniture Solutions	1,105.00	1,408,889.06	
DAC-05	04/17/19	Logista	3,790.00	1,405,099.06	
DAC-06	04/24/19	Cannon Chrysler Dodge	41,910.00	1,363,189.06	
DAC-07	05/13/19	Logista	80,595.00	1,282,594.06	
DAC-08	06/10/19	Middle South Computer	5,999.00	1,276,595.06	
DAC-09	06/10/19	Lander's Dodge	44,800.00	1,231,795.06	
DAC-10	06/20/19	Gary's Pawn & Gun	7,122.50	1,224,672.56	
DAC-11	07/31/19	Gourtesy Motors, Inc	30,717.00	1,193,955.56	
DAC-12	10/07/19	Logista	20,388.00	1,173,567.56	
DAC-13	10/10/19	Dell Marketing	35,182.40	1,138,385.16	
DAC-14	11/01/19	Dell Marketing	855.48	1,137,529.68	
DAC-15	11/14/19	Lander's Dodge	44,800.00	1,092,729.68	
DAC-16	12/23/19	Logista	12,792.00	1,079,937.68	
DAC-17	02/18/20	Courtesy Motors, Inc.	31,524.00	1,048,413.68	
DAC-18	02/18/20	Brookway Corporation/DBA Paul Barnett Nissan	85,000.00	963,413.68	
DAC-19	02/24/20	Logista	10,310.00	953,103.68	
DAC-20	03/20/20	Hotel & Restaurant Supply, Inc.	4,995.00	948,108.68	
DAC-21	03/27/20	Lander's Dodge	22,565.00	925,543.68	
DAC-22	04/02/20	Upchurch Services, LLC	15,437.00	910,106.68	
DAC-23	05/21/20	Deviney Rental & Supply	1,485.00	908,621.68	
DAC-24	07/01/20	MNJ Technologies Direct, Inc.	17,399.23	891,222.45	
DAC-25	07/09/20	MNJ Technologies Direct, Inc.	4,588.72	886,633.73	
DAC-26	08/03/20	Dell Marketing L.P.	2,511.81	884,121.92	
DAC-27	09/14/20	Lander's Dodge	22,450.00	861,671.92	
DAC-28	10/12/20	Deviney Rental & Supply	35,258.09	826,413.83	
DAC-29	11/18/20	Business Furniture Solutions	1,186.00	825,227.83	
DAC-30	01/05/21	Upchurch Services, LLC	26,632.00	798,595.83	
DAC-31	01/08/21	Hotel & Restaurant Supply, Inc.	35,300.00	763,295.83	
DAC-32	02/04/21	Kanawha Scales & Systems, Inc.	232,200.00	531,095.83	
DAC-33	03/30/21	Hotel & Restaurant Supply, Inc.	2,100.00	528,995.83	
DAC-34	03/30/21	Mel Luna Saw Company	10,009.23	518,986.60	
DAC-35	04/12/21	Ben Nelson Golf & Outdoor	11,167.00	507,819.60	
DAC-36	04/15/21	Lakeland Music	7,045.00	500,774.60	
DAC-37	08/03/21	Upchurch Services, LLC	49,950.00	450,824.60	
DAC-38	08/03/21	Ozborn Communications, LLC	2,415.00	448,409.60	
		TOTAL DEPT OF AGRICULTURE & COMMERCE		1,500,000.00	
		BALANCE OF EQPT FUNDS		448,409.60	
<b>DEPT OF REVENUE</b>			<b>a/c #238925002</b>		
				319,190.00	319,190.00
DOR-1	03/21/19	Presidio Networked Solutions	76,026.28	243,163.72	
DOR-2	03/21/19	Pinnacle Business Systems	35,227.28	207,936.44	
DOR-3	07/17/19	Butch Oustalet Inc	135,200.00	72,736.44	
DOR-4	01/15/20	Shaw Material Handling Systems	66,646.00	6,090.44	
				6,090.44	
		TOTAL DEPT OF REVENUE		319,190.00	
		BALANCE OF EQPT FUNDS		6,090.44	
<b>CLEVELAND SCHOOL DISTRICT</b>			<b>a/c #238925004</b>		
				1,218,607.00	1,218,607.00
CSD-1	07/10/18	Empire Truck Sales	1,218,607.00	0.00	
				0.00	

**STATE OF MISSISSIPPI - 06.0672ML/Series 2018A**

Funded: 06/29 Matures: 4/15/2028

Trustee: US Bank

08/19/21

DISB #	DISB DATE	VENDOR	DEBIT AMOUNT	DISB AMOUNT	BALANCE
		TOTAL CLEVELAND SCHOOL DISTRICT			1,218,607.00
		BALANCE OF EQPT FUNDS			0.00
<b>NORTH PANOLA SCHOOL DISTRICT</b>		<b>a/c #238925005</b>			
				312,750.00	312,750.00
NPSD-1	12/21/18	Water's Truck & Tractor		312,750.00	0.00
					0.00
		TOTAL NORTH PANOLA SCHOOL DISTRICT			312,750.00
		BALANCE OF EQPT FUNDS			0.00
Total Equipment Cost					3,350,547.00
Total Disbursements					-1,364,689.96
Net Equipment Funds					1,985,857.04



# **The Metropolitan Government of Nashville and Davidson County**

**\$571,725,000 General Obligation Improvement Bonds, Series 2021C**

## **Transaction Pricing Summary**

**February 19, 2021**

# Transaction Overview

- \$571,725,000 General Obligation Improvement Bonds, Series 2021C were sold through a competitive sale on Wednesday, February 17, 2021
- The Proceeds from the Series 2021C Bonds will be used for the purpose of:
  - Retiring outstanding commercial paper, and
  - Paying certain costs of issuance related to the sale of the Series 2021C Bonds
- Moody's Investors Service, Inc. and S&P Global Ratings, have assigned ratings of "Aa2 (stable outlook)" and "AA (stable outlook)", respectively to the Series 2021C Bonds
- The 2021C Bonds received six bids from BofA Securities, Inc., Citigroup Global Markets Inc., UBS Financial Services Inc., J.P. Morgan Securities LLC, Goldman, Sachs & Co., and Morgan Stanley & Co., LLC
- BofA Securities, Inc bid the lowest True-Interest Cost (TIC) and was awarded the Series 2021C Bonds
- The Series 2021C Bonds resulted in:
  - 1.509% True Interest Cost
  - 1.518% All-In True Interest Cost

# Competitive Sale Bid Results

- The following bids were submitted using PARITY® and displayed ranked by lowest TIC.

Bidder Name	TIC
BofA Securities, Inc.	1.522088%
Citigroup Global Markets Inc.	1.563318%
UBS Financial Services Inc.	1.612745%
J.P. Morgan Securities LLC	1.647812%
Goldman, Sachs & Co.	1.685462%
Morgan Stanley & Co., LLC	1.695465%

# Yield Comparison to MMD

	Series 2021C		Compare To:			
Maturity	Bond Coupon	Bond Yield	2/17/2021 'AAA' MMD Yield	'AAA' Difference from Bond Yield	2/17/2021 'AA' MMD Yield	'AA' Difference from Bond Yield
2022	5.000%	0.060%	0.060%	0.000%	0.080%	-0.020%
2023	5.000%	0.090%	0.100%	-0.010%	0.120%	-0.030%
2024	5.000%	0.140%	0.150%	-0.010%	0.190%	-0.050%
2025	5.000%	0.180%	0.200%	-0.020%	0.240%	-0.060%
2026	5.000%	0.290%	0.260%	0.030%	0.310%	-0.020%
2027	5.000%	0.380%	0.320%	0.060%	0.420%	-0.040%
2028	5.000%	0.500%	0.440%	0.060%	0.540%	-0.040%
2029	5.000%	0.620%	0.560%	0.060%	0.690%	-0.070%
2030	5.000%	0.730%	0.680%	0.050%	0.810%	-0.080%
2031	4.000%	0.860%	0.760%	0.100%	0.890%	-0.030%
2032	4.000%	0.960%	0.810%	0.150%	0.940%	0.020%
2033	3.000%	1.110%	0.860%	0.250%	1.010%	0.100%
2034	3.000%	1.200%	0.920%	0.280%	1.070%	0.130%
2035	3.000%	1.330%	0.980%	0.350%	1.140%	0.190%
2036	1.750%	1.710%	1.020%	0.690%	1.180%	0.530%
2037	1.750%	1.760%	1.060%	0.700%	1.230%	0.530%
2038	2.000%	1.850%	1.100%	0.750%	1.270%	0.580%
2039	2.000%	1.890%	1.140%	0.750%	1.310%	0.580%
2040	2.000%	1.930%	1.180%	0.750%	1.350%	0.580%
2041	2.000%	1.970%	1.220%	0.750%	1.390%	0.580%

# Transaction Statistics

	February 17, 2021 Final Pricing
Dated / Delivery Dates	02/25/2021
First Coupon	01/01/2022
First Maturity	01/01/2022
Final Maturity	01/01/2041
Average Annual Debt Service	\$ 37,830,860
True Interest Cost (TIC)	1.509%
All-In-TIC	1.518%

# Transaction Statistics (Cont.)

February 17, 2021 Final Pricing	
Source of Funds	Series 2021C
Par Amount	\$ 571,725,000.00
Original Issue Premium	80,735,289.60
<b>Total Sources</b>	<b>\$ 652,460,289.60</b>
Use of Funds	Series 2021C
Retirement of Commercial Paper	\$ 650,000,000.00
Cost of Issuance	612,582.46
Underwriter's Discount	1,847,707.14
<b>Total Uses</b>	<b>\$ 652,460,289.60</b>

# Debt Service Schedule

Period Ending	Outstanding Debt Service	General Obligation Improvement Bonds, Series 2021C			Total GO Debt Service
		Principal	Interest	Debt Service	
6/30/2021	\$ 321,258,219	\$ -	\$ -	\$ -	\$ 321,258,219
6/30/2022	311,444,446	21,205,000	16,624,916	37,829,916	349,274,362
6/30/2023	312,448,761	19,330,000	18,498,475	37,828,475	350,277,236
6/30/2024	315,426,640	20,300,000	17,531,975	37,831,975	353,258,615
6/30/2025	306,818,857	21,315,000	16,516,975	37,831,975	344,650,832
6/30/2026	279,463,374	22,380,000	15,451,225	37,831,225	317,294,599
6/30/2027	256,938,534	23,500,000	14,332,225	37,832,225	294,770,759
6/30/2028	248,550,543	24,675,000	13,157,225	37,832,225	286,382,768
6/30/2029	200,890,306	25,905,000	11,923,475	37,828,475	238,718,781
6/30/2030	200,335,374	27,200,000	10,628,225	37,828,225	238,163,599
6/30/2031	195,635,645	28,560,000	9,268,225	37,828,225	233,463,870
6/30/2032	195,046,670	29,705,000	8,125,825	37,830,825	232,877,495
6/30/2033	194,433,077	30,895,000	6,937,625	37,832,625	232,265,702
6/30/2034	153,202,981	31,820,000	6,010,775	37,830,775	191,033,756
6/30/2035	149,151,691	32,775,000	5,056,175	37,831,175	186,982,866
6/30/2036	89,105,900	33,760,000	4,072,925	37,832,925	126,938,825
6/30/2037	89,104,200	34,350,000	3,482,125	37,832,125	126,936,325
6/30/2038	53,819,300	34,950,000	2,881,000	37,831,000	91,650,300
6/30/2039	53,815,200	35,650,000	2,182,000	37,832,000	91,647,200
6/30/2040	-	36,360,000	1,469,000	37,829,000	37,829,000
6/30/2041	-	37,090,000	741,800	37,831,800	37,831,800
<b>Total</b>	<b>\$ 3,926,889,717</b>	<b>\$ 571,725,000</b>	<b>\$184,892,191</b>	<b>\$ 756,617,191</b>	<b>\$ 4,683,506,909</b>

# Transaction Team

- Bond Counsel – Bass, Berry & Sims PLC
- Financial Advisor – Hilltop Securities Inc.
- Paying Agent – U.S. Bank
- Purchaser – BofA Securities, Inc.

# Market Update for Week of February 15th

## Market Observations - Week of February 15th

### Primary Market:

- 30-Day Visible Supply is approximately \$7.6 billion
- Holiday-shortened calendar estimated to be \$5.67 billion – approximately \$4.2 billion of negotiated sales and \$1.4 billion of competitive sales
- Largest negotiated deals are \$658.075 million of City of Tucson taxable Certificates of Participation and Regional Transportation District of Colorado's \$519 million of taxable sales tax Revenue Refunding Bonds and \$298 million of tax-exempt Sales Tax Revenue Refunding Bonds

### Secondary Market:

- Municipal Bond Funds reported \$2.64 billion in net inflows last week, compared with \$1.58 billion of inflows the prior week, the 14th straight week of inflows

### General Market Overview:

- The 30-year U.S. Treasury reset at 2.01% last Friday after having remained below 2.00% since February 2020
- There continues to be a strong municipal new issue market with limited supply
- U.S. financial markets were closed on Monday, in observance of the Presidents' Day holiday. Investors will continue be focused on the earnings that will be released this week. Earnings beats coupled with positive economic data have propelled all major indexes to new record highs. Also, investors continue to monitor the ongoing negotiations regarding President Biden's efforts to pass the \$1.9 trillion COVID-19 relief package.



## Tab 8 - Fee Schedule

1. The fees listed in Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services shall constitute the entire compensation due to the Advisor for services and all of the Advisor's obligations hereunder regardless of the difficulty, materials, or equipment required. The fees include, but are not limited to, all applicable taxes, fees, general office expense, travel, overhead, profit, and all other direct and indirect costs, incurred or to be incurred, by the Advisor. DFA shall not provide any prepayments or initial deposits in advance of services being rendered. Only those services agreed to by contract shall be considered for reimbursement/compensation by DFA. Payment for any and all services provided by Advisor to DFA shall be made only after said services have been duly performed and properly invoiced. The fees listed in in Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services of this contract are firm for the duration of this contract and are not subject to escalation for any reason, unless this contract is duly amended.

2. In the event DFA requests and authorizes Advisor for the performance of any of the services covered under this Contract for which travel expenses are not already included, compensation to Advisor for travel, meals and/or lodging must be approved in advance and shall be allowed subject to the following criteria:

a. In order to be compensable by DFA, travel expenses must be reasonable and necessary for the fulfillment of the project and contractual obligations;

b. Air travel reimbursement will be limited to "Coach" or "Tourist" class rates, and must be supported by a copy of an original invoice;

c. Meals and lodging expenses will be reimbursed in the amount of actual costs, subject to the maximum per diem as defined in the Federal Register. A copy of all hotel receipts must be provided. A copy of meal receipts is not necessary;

d. Taxi fares, reasonable rental car expenses, and airport parking expenses will be reimbursed in the amount of actual costs, and must be supported by a copy of an original receipt/invoice;

e. Personal automobile mileage and related costs are not compensable expenses;

f. Time spent in "travel status" is not compensable.

### Fee Schedule for Master Lease Programs Financial Advisor Services

Proposers are asked to indicate the cost per \$1000 issued. As per the specifications, all costs not otherwise indicated should be included in the cost per \$1000 issued and will be included in the proceeds and will be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

	Year 1	Year 2	3 year Total	Year 4*	Year 5*	5* year Total
K-12 School Districts and Community & Jr College Districts	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000
State Agencies	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000	\$10/\$1000

*\*Indicates possible renewal year*

Indicate below or on an attached page, any costs which the DFA or the Districts and State Agencies will incur which are not included in the cost per \$1000 issued. Include a complete description of the cost and the estimated cost. Any such costs shall also be included in the proceeds and be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

None; however, please note that other costs of issuance, including, but not limited to, rating fees (approximately \$10000-\$15000), trustee fees and trustee reserve fees (approximately \$5000), special tax counsel fees (approximately \$4500), special filing fees, such as aircraft filings, costs of distributing/printing offering documents through i-Deal, and arbitrage calculations (if applicable) will be included in each Series and will be passed through at cost.



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Tab 9 - Signed Acknowledgment of RFP Amendments (if any)

To the best of our knowledge, the State did not publish any addenda in connection with RFX 3120002290.



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## Tab 10 - Resumes for Key Staff

### **Steven D. Johnson** **Senior Vice President**

717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201

Telephone: 214.953.4005  
steven.d.johnson@hilltopsecurities.com

### **Areas of Focus**

Specializes in public finance with experience in fixed and variable rate structures, interest rate swaps and other derivative contracts

### **Profile**

- Joined the firm in 2004
- Has been in public finance since 1996
- Background includes structuring general obligation bond issues, refundings, transportation issues including toll road and airport financings, single-family and multi-family housing programs, revolving loan fund and pooled loan programs, convention center and arena financings as well as other tax and revenue supported projects
- Has provided services for an array of diverse issuers such as the cities of Dallas, Atlanta, Memphis, and Nashville; the Municipality of Anchorage; the State of North Carolina; the Commonwealth of Virginia; the State of Mississippi, and Arkansas Development Finance Authority, and the North Texas Tollway Authority.
- Responsible for structuring more than \$50 billion in municipal bonds since 1996

### **Education**

- Bachelor of Business Administration in Finance and Economics, Augsburg College, Minneapolis
- Juris Doctor, William Mitchell College of Law, Minneapolis

### **Current Affiliations**

- National Council of State Housing Agencies

### **Licenses Held**

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Uniform Securities Agent, Series 63
  - Investment Banking Representative, Series 79



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**Vickie Hall**  
***Vice President***

717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201

Telephone: 214.953.8874  
vickie.hall@hilltopsecurities.com

**Areas of Focus**

Municipal leasing; general public finance

**Profile**

- Joined the firm in 2003
- Responsible for preparation of offering documents in connection with lease transactions
- Reviews and prepares lease and master lease documents
- Analyzes legal issues
- Coordinates with bond counsel and underwriter counsel when applicable
- Prepares responses to requests for proposals for financial advisor, underwriting and ancillary services for the firm
- Previously specialized in public finance, serving as bond counsel and underwriters counsel in tax-exempt and taxable general obligation issuance

**Education**

- Bachelor of Science in Public Administration, University of Houston
- Juris Doctor, University of Houston Law Center

**Licenses Held**

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Municipal Securities Principal, Series 53
  - Municipal Advisor Principal, Series 54
  - Uniform Securities Agent, Series 63
  - Investment Banking Representative, Series 79



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**Emily B. Hundley**  
**Senior Vice President**

717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201

Telephone: 214.953.8858  
emily.hundley@hilltopsecurities.com

**Areas of Focus**

Specializes in technical and analytical investment banking services for a variety of clients

**Profile**

- Joined the firm in 2009
- Responsible for client, project and analytical support for each engagement
- Assists with bond sizing, spreadsheet modeling, refunding analyses, interest rate swap analyses, and documentation review for debt offerings
- Experience includes working with a wide range of bond and note transactions

**Education**

- Bachelor of Business Administration in Finance, Cox School of Business at Southern Methodist University

**Current Affiliations**

- Women in Public Finance – Texas Chapter Board

**Licenses Held**

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Uniform Securities Agent, Series 63



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**Shari Goldberg**  
***Accounting Specialist***

717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201

Telephone: 214.859.6058  
shari.goldberg@hilltopsecurities.com

**Areas of Focus**

Accounting

**Profile**

- Joined HilltopSecurities in 2015
- Post-closing responsibilities include analysis and reconciliation of disbursement requests, tailoring lease payment invoices to meet the specific requests of the lessees, coordinating document flow and investment of funds, monitoring the timeliness of lease payments, and working closely with the Trustee and the lessee to facilitate the administration of the transactions

**Education**

- Bachelor of Business Administration in Finance, University of Texas at Austin



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**Peter B. Stare**  
***Managing Director***

700 Milam Street, Suite 500  
Houston, Texas 77002

Telephone: 713.654.8639  
peter.stare@hilltopsecurities.com

**Area of Focus**

Long-term underwriting of municipal bonds

**Profile**

- First joined the firm in 1996
- Responsible for the negotiated underwriting efforts of both tax-exempt and taxable municipal issues
- Has been involved in the securities industry since 1974 in the areas of sales, trading, underwriting, and portfolio management
- Worked with several regional and nationally recognized firms managing their trading desks, municipal bond departments, and investment divisions

**Education**

- Bachelor of Business Administration, Southern Methodist University

**Past Affiliations**

- The Municipal Advisory Council of Texas, board member
- Municipal Bond Clubs of Dallas and Houston, president

**Licenses Held**

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Municipal Advisor Representative, Series 50
  - Municipal Securities Principal, Series 53
  - Uniform Securities Agent, Series 63



## Tab 11- Any Additional Information

### HilltopSecurities Ancillary Services Experience

As a leading advisor to state and local issuers nationwide, HilltopSecurities has responded to today's increasingly complex public finance landscape by raising the bar on the services, resources, and experience our firm offers. In fact, HilltopSecurities is arguably one of the most well-equipped and resourceful investment banking firms in the nation. HilltopSecurities possesses the experience, expertise and resources to provide Arbitrage Rebate services, Continuing Disclosure services, Asset Management services and Structured Finance services in-house. No other firm can provide all these services in-house. The following table summarizes the volume of our participation providing these select services.

Type of Service	Volume of Participation
<b>Financial Advisory Services</b>	During the five-year period ending July 31, 2021, HilltopSecurities provided financial advisory services on 4,134 issues totaling \$178.70 billion par volume, ranking us <b>#2 in the nation</b> for number of issues. <i>Source: Ipreo MuniAnalytics</i>
<b>Arbitrage Rebate Calculation Services</b>	Provides calculations to approximately 520 clients across 27 states, on more than 3,200 bond issues, totaling \$207 billion par amount, as of June 30, 2021. <i>Source: Internal Databases</i>
<b>Continuing Disclosure Services</b>	Assists over 850 state and local government clients in 19 states in meeting their continuing disclosure obligations and to comply with SEC Rule 15c2-12. <i>Source: Internal Databases</i>
<b>Investment Management</b>	As of June 30, 2021, actively manages \$18.2 billion for 46 state and local governments; also serves as the investment advisor for an additional \$8.7 billion for a total of \$26.9 billion. <i>Source: Internal Databases</i> <b>Investment Management services are calculated based on the amount of funds under management</b>
<b>Structured Finance</b>	For the five-year period ending June 30, 2021, the firm has served as swap advisor on 266 transactions totaling over \$6.5 billion in notional amount. Additionally, the firm has served as the bidding agent for 555 municipal reinvestment transactions totaling over \$46.1 billion in notional amount, including 483 escrow open market securities purchases totaling over \$45.2 billion in notional amount. <i>Source: Internal Databases</i>
<b>Underwriting*</b>	During the five-year period ending July 31, 2021, served as senior or co-managing underwriter on 1,175 issues, exceeding \$92.55 billion par amount. <i>Source: Ipreo MuniAnalytics</i>
<b>OPEB Consulting**</b>	Members of the firm have reviewed over 2,000 pension and OPEB actuarial studies and related CAFRs. Our firm has worked with independent actuaries to review pension studies, including TMRS members. In some cases, there were material changes. <i>Source: Internal Databases</i>

State of Mississippi

# Exhibit 1

Municipal Advisor Disclosure Statement

Exhibit 1





## MUNICIPAL ADVISOR DISCLOSURE STATEMENT

This disclosure statement ("Conflict Disclosures") is provided by Hilltop Securities Inc. ("the Firm") to disclose information regarding conflicts of interest and legal or disciplinary events of the Firm that are required to be disclosed to potential clients pursuant to MSRB Rule G-42(b) and (c)(ii).

### **PART A – Disclosures of Conflicts of Interest**

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable.

**Material Conflicts of Interest** – The Firm makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under the Agreement with the Firm, together with explanations of how the Firm addresses or intends to manage or mitigate each conflict.

**General Mitigations** – As general mitigations of the Firm's conflicts, with respect to all of the conflicts disclosed below, the Firm mitigates such conflicts through its adherence to its fiduciary duty to clients, which includes a duty of loyalty to clients in performing all municipal advisory activities for clients. This duty of loyalty obligates the Firm to deal honestly and with the utmost good faith with client and to act in the client's best interests without regard to the Firm's financial or other interests. In addition, because the Firm is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of the Firm is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitably built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, the Firm's municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of the Firm potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

**I. Affiliate Conflict.** The Firm, The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Hilltop Securities Asset Management (HSAM), a SEC-registered affiliate of the Firm, provides post issuance services including arbitrage rebate and treasury management. The Firm's arbitrage team verifies rebate and yield restrictions on the investments of bond proceeds on behalf of clients in order to meet IRS restrictions. The treasury management division performs portfolio management/advisor services on behalf of public sector clients. The Firm, through affiliate Hilltop Securities Asset Management (HSAM), provides a multi-employer trust tailor-made for public entities which allows them to prefund Other Post-Employment Benefit liabilities. The Firm has a structured products desk that provides advice to help clients mitigate risk through investment management, debt management and commodity price risk management products. These products consist of but are not limited to swaps (interest rate, currency, commodity), options, repos, escrow structuring and other securities. Continuing Disclosure services provided by the Firm work with issuers to assist them in meeting disclosure requirements set forth in SEC rule 15c2-12. Services include but are not limited to ongoing maintenance of issuer compliance, automatic tracking of issuer's annual filings and public notification of material events. The Firm administers government investment pools. These programs offer governmental entities investment options for their cash management programs based on the entities specific needs. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

**II. PlainsCapital Bank Affiliate Conflict.** The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Affiliate, PlainsCapital Bank, provides banking services to municipalities including loans and custody. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

**III. Other Municipal Advisor or Underwriting Relationships.** The Firm serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of other clients. For example, the Firm serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to all its municipal advisory clients. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, the Firm could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of the Firm to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that the Firm serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair the Firm's ability to fulfill its regulatory duties to any specific client.

**IV. Secondary Market Transactions in Client's Securities.** The Firm, in connection with its sales and trading activities, may take a principal position in securities, including securities of its clients, and therefore the Firm could have interests in conflict with a client with respect to the value of the client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, the Firm or its affiliates may submit orders for and acquire a municipal advisory client's securities issued in an issue under a municipal advisory agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with the client in that it could create the incentive for the Firm to make recommendations to the client that could result in more advantageous pricing of the client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by the Firm to any client under a municipal advisory agreement.

**V. Broker-Dealer and Investment Advisory Business.** The Firm is dually registered as a broker-dealer and an investment advisor that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include



but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities, including securities of the firm's municipal advisory clients, may be undertaken on behalf of, or as counterparty to, the client, personnel of the client, and current or potential investors in the securities of the client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of the Firm's municipal advisory clients, such as when their buying or selling of the municipal advisory client's securities may have an adverse effect on the market for municipal advisory client's securities, and the interests of such other clients could create the incentive for the Firm to make recommendations to the municipal advisory client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from the firm effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by the Firm to its municipal advisory client.

**VI. Compensation-Based Conflicts.** Fees that are based on the size of the issue are contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for the Firm to recommend unnecessary financings or financings that are disadvantageous to its clients, or to advise clients to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.

Fees based on a fixed amount are usually based upon an analysis by the client and the Firm of, among other things, the expected duration and complexity of the transaction and the scope of municipal services to be performed by the Firm. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the Firm may suffer a loss. Thus, the Firm may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.

Hourly fees are calculated with, the aggregate amount equaling the number of hours worked by Firm personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if the client and the Firm do not agree on a reasonable maximum amount at the outset of the engagement, because the Firm does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.

#### **PART B – Disclosures of Information Regarding Legal Events and Disciplinary History**

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel.

Accordingly, the Firm sets out below required disclosures and related information in connection with such disclosures.

**I. Material Legal or Disciplinary Event.** The Firm discloses the following legal or disciplinary events that may be material to a client's evaluation of the Firm or the integrity of the Firm's management or advisory personnel:

- For related disciplinary actions please refer to the Firm's BrokerCheck webpage.
- The Firm self-reported violations of SEC Rule 15c2-12: Continuing Disclosure. The Firm settled with the SEC on February 2, 2016. The firm agreed to retain independent consultant and adopt the consultant's finding. Firm paid a fine of \$360,000.
- The Firm settled with the SEC in matters related to violations of MSRB Rules G-23(c), G-17 and SEC rule 15B(c) (1). The Firm disgorged fees of \$120,000 received as financial advisor on the deal, paid prejudgment interest of \$22,400.00 and a penalty of \$50,000.00.
- The Firm entered into a Settlement Agreement with Rhode Island Commerce Corporation. Under the Settlement Agreement, the firm agreed to pay \$16.0 million to settle any and all claims in connection with The Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bond (38 Studios, LLC Project) Series 2010, including the litigation thereto. The case, filed in 2012, arose out of a failed loan by Rhode Island Economic Development Corporation. The firm's predecessor company, First Southwest Company, LLC, was one of 14 defendants. HilltopSecurities' engagement was limited to advising on the structure, terms, and rating of the underlying bonds. Hilltop settled with no admission of liability or wrongdoing.
- On April 30, 2019, the Firm entered into a Settlement Agreement with Berkeley County School District of Berkeley County, South Carolina. The case, filed in March of 2019, arose in connection with certain bond transactions occurring from 2012 to 2014, for which former employees of Southwest Securities, Inc., a predecessor company, provided financial advisory services. The Firm agreed to disgorge all financial advisory fees related to such bond transactions, which amounted to \$822,966.47, to settle any and all claims, including litigation thereto. Under the Settlement Agreement, the Firm was dismissed from the lawsuit with prejudice, no additional penalty, and with no admission of liability or wrongdoing.
- From July 2011 to October 2015, Hilltop failed to submit required MSRB Rule G-32 information to EMMA in connection with 122 primary offerings of municipal securities for which the Firm served as placement agent. During the period January 2012 to September 2015, the Firm failed to provide MSRB Rule G-17 letters to issuers in connection with 119 of the 122 offerings referenced above. From October 2014 to September 2015, the Firm failed to report on Form MSRB G-37 that it had engaged in municipal securities business as placement agent for 45 of these 122 offerings. This failure was a result of a misunderstanding by one branch office of Southwest Securities. Hilltop discovered these failures during the merger of FirstSouthwest and Southwest Securities and voluntarily reported them to FINRA. The Firm paid a fine of \$100,000 for these self-reported violations.
- In connection with a settlement on July 9, 2021, the U.S. Securities and Exchange Commission found that, between January 2016 and April 2018, the Firm bought municipal bonds for its own account from another broker-dealer and that, on occasion during that time period, the other broker-dealer mischaracterized the Firm's orders when placing them with the lead underwriter. The SEC found that, among other things, the Firm lacked policies and procedures with respect to how stock orders were submitted for new issues bonds to third parties, including the broker-dealer that mischaracterized the Firm's orders. The SEC found violations of MSRB Rules G-27, G-17, and SEC rule 15B(c)(1) and a failure to reasonably supervise within the meaning of Section 15(b)(4)(E) of the Securities Exchange Act of 1934. The Firm was censured and ordered to pay disgorgement of \$206,606, prejudgment interest of \$48,587 and a penalty of \$85,000.

**II. How to Access Form MA and Form MA-I Filings** The Firm's most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC's EDGAR system at system at [Forms MA and MA-I](#). The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by the Firms in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form



ADV, as applicable. Information provided by the Firm on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at <http://brokercheck.finra.org/>, and the Firm's most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov/>. For purposes of accessing such BrokerCheck reports or Form ADV, click previous hyperlinks.

**PART C – MSRB Rule G-10 Disclosure**

MSRB Rule G-10 covers Investor and Municipal Advisory Client education and protection. This rule requires that municipal advisors make certain disclosures to all municipal advisory clients. This communication is a disclosure only and does not require any action by the firm's municipal advisory clients. The disclosures are noted below.

1. Hilltop Securities Inc. is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a Municipal Advisor.
2. You can access the website for the Municipal Securities Rulemaking Board at [www.msrb.org](http://www.msrb.org)
3. The Municipal Securities Rulemaking Board has posted a municipal advisory client brochure. A copy of the brochure is attached to the memo. This link will take you to the electronic version [MA\\_Client\\_Brochure](#).

**\$1,305,000**  
**PRIVATELY-PLACED LEASE REVENUE CERTIFICATES OF PARTICIPATION**  
**(Master Lease Program, Series 2020A)**  
**Evidencing Proportionate Interests in**  
**Lease Payments to be Made Pursuant to a**  
**Series 2020A Master Lease Purchase Agreement**  
**and the Series 2020A Equipment Schedules thereto**  
**made and entered into by and between**  
**THE STATE OF MISSISSIPPI, represented by and acting through its**  
**Department of Finance and Administration**  
**and**  
**FIRST SOUTHWEST LEASING COMPANY**

**DATED AND SETTLED MARCH 5, 2020**

**HILLTOP SECURITIES INC.**  
**1201 Elm Street, Suite 3500**  
**Dallas, Texas 75270**  
**(214) 953-8874**

**\$1,305,000**  
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**FINANCING DOCUMENTS**

1. Master Equipment Lease Purchase Agreement
2. Trust Agreement
3. Absolute Assignment Agreement
4. Specimen Certificate
5. Investment Letter of Purchaser

**CLOSING CERTIFICATES**

6. Consent to and Acknowledgment of Assignment
7. Arbitrage and Tax Certificate
8. Closing Certificate of the Lessee
9. Incumbency Certificate of Lessor
10. Certificate of First Southwest Leasing Company
11. Trustee's Closing Certificate
12. Lessee's Invoicing Procedure
13. Evidence of Self-Insurance

**LEGAL OPINIONS**

14. Opinion of Special Assistant Attorney General of the State of Mississippi re: Validity and enforceability of the Master Lease Purchase Agreement
15. Opinion of Butler Snow LLP, as Special Tax counsel
16. Opinion of Butler Snow LLP, PC, as Trustee's Counsel
17. Opinion of Butler Snow LLP, PC, with respect to Exemption from Registration
18. Opinion for First Southwest Leasing Company

**POST CLOSING**

19. Form 8038-G with evidence of mailing
20. Lessee's UCC-1 Financing Statement

**PARTICIPATING USER DOCUMENTS**

- |                                 |                                      |
|---------------------------------|--------------------------------------|
| 21. Ellisville State School     | 22. Copiah-Lincoln Community College |
| i. Participating User Agreement | i. Authorizing Resolution            |
| ii. Closing Certificate         | ii. Participating User Agreement     |
| iii. Invoicing Instructions     | iii. Proceeds Certificate            |
| iv. UCC Financing Statement     | iv. Closing Certificate              |
| v.                              | v. Invoicing Instructions            |
|                                 | vi. IRS Form 8038G                   |
|                                 | vii. UCC Financing Statement         |

## **SERIES 2020A MASTER LEASE PURCHASE AGREEMENT**

This **SERIES 2020A MASTER LEASE PURCHASE AGREEMENT** (this “Master Lease Agreement”), dated as of March 5, 2020, is made and entered into by and between the **STATE OF MISSISSIPPI** (the “State”), represented by and acting through the State of Mississippi Department of Finance and Administration (in such capacity, the “Lessee”), and **FIRST SOUTHWEST LEASING COMPANY**, a Delaware corporation (“Lessor”).

### **RECITALS**

WHEREAS, the State of Mississippi Department of Finance and Administration (“DFA”) has the authority pursuant to Section 31-7-10 (the “Master Lease Statute”) of the Mississippi Code of 1972, as amended (the “Mississippi Code”), to develop a Master Lease Purchase Program (the “Program”) and execute on behalf of Lessee master lease purchase agreements under the Program for equipment to be used by state agencies and departments (each, an “Agency”), and community college districts (each, a “Community College District or “the District” and with the Agencies , the “Participating Users”) located in the State; and

WHEREAS, the State, represented by and acting through DFA, has established the Program in order to obtain the lowest cost for equipment and financing thereof for use by the Participating Users; and

WHEREAS, as part of and in the furtherance of the Program and pursuant to the Master Lease Statute, Lessee does hereby enter into this Master Lease Agreement for the lease purchase of equipment by Lessee for use by the Participating Users on the terms and conditions as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the representations and agreements contained herein, the parties hereto mutually agree as follows:

### **ARTICLE I LEASE PURCHASE OF EQUIPMENT**

Section 1.1. Lease of Equipment. Subject to the terms and conditions hereof, Lessor agrees to lease to Lessee, and Lessee agrees to lease from Lessor, the equipment (the “Equipment”) described in the “Expected Equipment Schedules for Master Lease Purchase Series 2020A” attached hereto as **Exhibit “A”** (collectively, the “Equipment Schedules”).

In addition, Lessee and Lessor may from time to time enter into additional Master Lease Purchase Agreements and additional Equipment Schedules (each such additional Master Lease Purchase Agreement and equipment schedule or group of equipment schedules being referred to herein collectively as an “Additional Master Lease Agreement” and an “Additional Equipment Schedule” pursuant to which Lessor will agree to lease to Lessee, and Lessee will agree to lease from Lessor, the equipment described therein (herein collectively called the “Additional Equipment”). Each such Additional Master Lease Agreement and Additional Equipment Schedule shall represent a separate financing (each a “Series”) and shall be designated by year of execution and delivery and by a letter designation A and following within each year. The terms and conditions contained in this Master Lease Agreement shall operate independently of and shall not be affected by the terms and conditions contained in an Additional Master Lease Agreement relating to any Additional Equipment Schedule and Additional Equipment with respect to any Series. Likewise, the terms and conditions contained in an Additional Master Lease Agreement, and relating to an Additional Equipment Schedule or Additional Equipment with respect to any Series shall operate independently of and shall not be affected by the terms and conditions contained in this Master Lease Agreement.

Section 1.2. Series 2020A Acquisition Fund.

(a) Funding of Series 2020A Acquisition Fund. Upon execution of this Master Lease Agreement and the receipt by the Trustee (as hereinafter defined) of the proceeds of the sale of the Certificates (as hereinafter defined), Lessor shall cause to be deposited into the Proceeds Fund (as defined in the Trust Agreement), for further deposit into the Series 2020A Acquisition Fund (the "Acquisition Fund") created pursuant to the Trust Agreement (as hereinafter defined) \$1,277,532.00 (the "Acquisition Fund Deposit"), which amount will be sufficient to fund the purchase price of the Equipment. Balances in the Acquisition Fund shall be invested and administered by the Trustee (as hereinafter defined) as provided in this Section 1.2 and in the Trust Agreement. A separate Acquisition Fund shall be established for each Additional Master Lease Agreement for each Series.

(b) Disbursement from Acquisition Fund.

Subject to the terms and provisions of this Section 1.2 and the Trust Agreement, the Trustee shall use the moneys deposited in the Acquisition Fund to pay the purchase price of the Equipment as set forth in the Equipment Schedules, including any costs associated with the installation or acquisition of such Equipment as set forth in the Equipment Schedules. The Trustee shall disburse moneys from the Acquisition Fund for the purchase of the Equipment upon receipt by the Trustee from the Participating User designated for such item(s) of Equipment of either (i) the closing statement (the "Closing Statement") to be delivered to the Trustee simultaneously with the Trustee's receipt of the proceeds of the sale of the Certificates, or (ii) a completed Request for Disbursement in the form attached as Exhibit B to the applicable User Agreement (as defined herein), a form of which is attached hereto as **Exhibit "C"**, together with all required attachments, including the (1) invoice for the Equipment to be purchased; and (2) an insurance certificate or a statement of self-insurance with respect to such Equipment. Notwithstanding the amount set forth on any such invoice or the Closing Statement, the amount to be paid for such item of Equipment shall not exceed the cost as set forth in the Equipment Schedule for such item of Equipment. The Participating User will be responsible for paying any excess and shall supply Lessee with funds to pay any such difference. The Trustee shall pay the purchase price of the Equipment for which payment has been requested solely from funds on deposit in the Acquisition Fund, directly to the person or party listed in the Request for Disbursement or the Closing Statement; provided, however, if written evidence is presented with the Request for Disbursement or the Closing Statement of a prior payment of any portion of the cost by a third party, then payment may be made to the person or entity entitled to reimbursement thereof, including reimbursement of a Participating User for advances made by it to purchase the item of Equipment.

In the event that Lessee (or a Participating User) shall determine that any item of Equipment described in an Equipment Schedule is not to be purchased, Lessee may use, with the consent of Lessor, an amount equal to the purchase price of such equipment to purchase one or more additional items of equipment by delivery of an amended Equipment Schedule(s) with respect to such substituted equipment; provided that the substituted equipment shall have a useful life not less than the useful life of the equipment not purchased. In the event the cost of such substituted equipment is greater than the cost of the original equipment, the Participating User thereof shall be responsible for payment of such excess cost and there shall only be disbursed from the Acquisition Fund an amount equal to the original cost of the equipment for which the substitution is made.

At any time but in no event later than the earlier of (a) March 5, 2023, or (b) the date on which the Trustee makes the final payment of the Equipment Costs, Lessee may determine that a portion of the funds on deposit in the Acquisition Fund (the "Unspent Acquisition Funds") will not be used to acquire one or more items of the Equipment shown on **Exhibit "A"** attached hereto or to acquire one or more items of substitute equipment. In such event, Lessee shall certify the amount of such Unspent Acquisition Funds and shall direct the Trustee to apply such amounts, to the extent the amount of the Unspent Acquisition Funds is \$50,000 or over, and to the nearest \$5,000 increment, as a prepayment of a corresponding amount of the Series 2020A Aggregate Lease Payments (as defined herein) payable pursuant to this Master Lease Agreement and the principal amount of the applicable Series 2020A User Lease Payments and a

corresponding amount of the future Lease Payments shall be reduced by an amount equal to the amount so prepaid. Such reduction in the principal amount of future Lease Payments will be made in such a manner that the remaining Lease Payments payable hereunder will be sufficient to pay the remaining Distributions (as defined in the Trust Agreement) with respect to the Certificates when due. The Participating Users shall be credited with amounts so prepaid in such manner as Lessee shall determine to be appropriate. Lessee shall direct the Trustee to credit Unspent Acquisition Funds in amounts less than \$50,000 to the payment of Lease Payments next due. The Participating Users shall be credited with amounts so applied in such manner as Lessee shall determine to be appropriate.

(c) Investments of the Acquisition Fund. The Trustee may invest the moneys held in the Acquisition Fund and such moneys together with any income or interest earned thereon shall be expended only as provided in this Section 1.2 and in the Trust Agreement. Moneys held in the Acquisition Fund shall be invested and reinvested at the direction of Lessee by the Trustee in investments allowed under the laws of the State to be made by the State pursuant to the provisions of the Trust Agreement. Lessee has authorized and directed Lessor to direct the Trustee, and authorized the Trustee to accept such direction from Lessor, regarding the investment and reinvestment of moneys held in the Acquisition Fund. Upon request, Lessor shall cause the Trustee to furnish to Lessee and the State Treasurer of the State an accounting of all such investments.

If any investment earnings on amounts in the Acquisition Fund are not needed to pay the costs of acquiring the Equipment, such investment earnings shall be held in the Acquisition Fund until a determination is made by Lessee that investment earnings will not be required to make payments of arbitrage rebate to the federal government, pursuant to **Section 5.06** hereof. After a determination has been made that such investment earnings shall not be required to pay arbitrage rebate, the excess shall be used to make Lease Payments pursuant to this Master Lease Agreement and the Participating Users shall be credited with amounts so applied in such manner as Lessee shall determine to be appropriate.

### Section 1.3. Reserved

Section 1.4. Lease Payments. Lessee agrees, subject to the terms and conditions of this Master Lease Agreement, to pay to Lessor, exclusively from legally available funds, in lawful money of the United States of America, the amounts (the "Series 2020A Aggregate Lease Payments" or the "Lease Payments") specified in the Series 2020A Aggregate Lease Payment Schedule attached hereto as **Exhibit "B"** and incorporated herein by reference (the "Aggregate Lease Payment Schedule") on the dates (each, a "Lease Payment Date") and in the manner set forth therein, subject to adjustments and modifications in accordance with this Master Lease Agreement. If any Lease Payment is due on a day which is not a business day ("business day" being defined as a day on which the offices of the State of Mississippi and banks located in the State of Mississippi are not required by law to close), such Lease Payment shall be due on the next day which is a business day. The Lease Payments will be paid from the "Master Lease Purchase Repayment Account-Series 2020A" (as defined and provided in **Section 3.1** of this Master Lease Agreement) and shall represent an amount equal to the aggregate total of all of the Series 2020A Participating User Lease Payments (the "Participating User Lease Payments") described in the Series 2020A Participating User Lease Payment Schedules attached to the Series 2020A Participating User Agreements (the "User Agreements"). Any Participating User Lease Payment received by Lessee prior to the due date thereof shall be held by Lessee in the Master Lease Purchase Repayment Account-Series 2020A until the due date of the corresponding Lease Payment. A portion of each Lease Payment is paid as and represents the payment of interest as set forth in the Aggregate Lease Payment Schedule.

The Lessee shall direct the Lessor to invest, or to direct the Trustee to invest, the Lease Payments for the benefit of the Lessee. To the extent that investment earnings are not required to pay arbitrage rebate, all investment earnings shall be credited to the payment of the Lease Payments next due and proportioned among the Participating Users in accordance with and at Lessee's direction.

Notwithstanding the foregoing, the Lessee's obligation to make the Lease Payments shall be limited to funds payable by the Participating Users , as authorized in the Master Lease Statute and as described in Section 3.4 hereof.

## **ARTICLE II LEASE AND USE OF THE EQUIPMENT**

Section 2.1. Use of the Equipment. Lessor agrees and acknowledges that the Equipment acquired and leased to Lessee hereunder as provided in Article I of this Master Lease Agreement shall be used during the lease term for such item of Equipment by the Participating User designated in the Equipment Schedule and User Agreement.

Section 2.2. Lease Term. This Master Lease Agreement shall be in effect commencing as of the date hereof and ending on the date as provided for termination of this Master Lease Agreement in Section 4.3, hereof, unless sooner terminated in accordance with the provisions of this Master Lease Agreement. The lease term for any item of the Equipment shall be deemed to commence as of the effective date of this Master Lease Agreement and end on the later of the date of payment of (i) the last lease payment as provided in the Participating User Lease Payment Schedule attached to the User Agreement relating to such item of Equipment or (ii) any other payment required under the Master Lease Agreement with respect to such item of Equipment, unless sooner terminated in accordance with the provisions of this Master Lease Agreement.

Section 2.3. Representations of Lessee.

(a) Lessee is a sovereign State of the United States of America within the meaning of Section 103(c) of the Internal Revenue Code of 1986, as amended (the "Code"), and the related regulations and rulings, and is duly authorized to enter into the transactions contemplated by this Master Lease Agreement and to carry out its obligations hereunder;

(b) This Master Lease Agreement and all other documents relating thereto and the performance of Lessee's obligations hereunder have been duly and validly authorized, executed and delivered by Lessee and approved under all laws, regulations and procedures applicable to Lessee, including, but not limited to, compliance with public bidding and purchasing requirements, and constitute valid, legal and binding obligations of Lessee, enforceable in accordance with their terms; and

(c) No approval or consent is required from any governmental authority with respect to the entering into or performance by Lessee of this Master Lease Agreement and the transactions contemplated hereby, or if any such approval is required it has been duly obtained.

## **ARTICLE III LEASE PAYMENT FUND; SERIES 2020A AGGREGATE LEASE PAYMENTS**

Section 3.1. Lease Payment Fund; Payment of Series 2020A Aggregate Lease Payments. Pursuant to and in accordance with the Master Lease Statute, there is a special fund known as the Master Lease Purchase Program Fund (the "Master Fund") created in the State Treasury for use by DFA to pay lessors under lease purchase agreements entered into pursuant to the Program. There shall be created in the Master Fund a separate account or fund known as the "Master Lease Purchase Repayment Account-Series 2020A" (the "Master Lease Purchase Repayment Account"). The funds in the Master Lease Purchase Repayment Account shall be used solely by Lessee to make payments required under this Master Lease Agreement as due.

Each Agency and District designated as a Participating User in an Equipment Schedule attached as part of **Exhibit "A"** to this Master Lease Agreement has entered into a Series 2020A Participating User Agreement (each a "User Agreement") in substantially the same form as attached hereto as **Exhibit "C"**. All funds that a Participating User shall be required to pay under the User Agreement shall be paid,

transferred or allocated to the Master Lease Purchase Repayment Account for use by Lessee to make the payments required by this Master Lease Agreement.

Section 3.2. Series 2020A Aggregate Lease Payments to be Unconditional. Subject to Section 3.3 hereof, the obligation of Lessee to make the Lease Payments and to pay all other amounts provided for in this Master Lease Agreement and to perform its obligations under this Master Lease Agreement shall be absolute and unconditional, without offset, abatement or deduction of any amounts whatsoever.

Section 3.3. Non-appropriation. The continuation of the lease purchase of all items of the Equipment described in an Equipment Schedule attached as part of **Exhibit "A"** to this Master Lease Agreement is contingent in whole or in part upon the appropriation of funds by the State Legislature to the Participating User thereof to make the payments with respect to all items of Equipment described thereon pursuant to such Participating User's User Agreement. If the State Legislature fails to appropriate sufficient funds to provide for the continuation of payments for all items of the Equipment described on an Equipment Schedule for the next fiscal year, then the obligations of Lessee and of the Participating User to make any further payments or to pay any other amounts required to be paid under the User Agreement and Equipment Schedule to relating to such Equipment, and this Master Lease Agreement to the extent attributable to such items of Equipment, shall terminate on the last day of the fiscal year for which appropriations were made, and the Participating User shall immediately return the Equipment affected by the nonappropriation to Lessee, who hereby agrees to return immediately the affected Equipment to the Lessor. In the event the nonappropriation is with respect to less than all items of Equipment subject to an Equipment Schedule, then the lease term with respect to all items of Equipment described on the Equipment Schedule on which the Equipment affected by the nonappropriation is described shall also terminate as if such items of Equipment had also been affected by the nonappropriation.

#### Section 3.4. Warrant Authority

*Agencies:* Pursuant to the provisions of Section 3.3 hereof, in the event that one or more Agencies fails to make any payment on the date due as required pursuant to its User Agreement, DFA has the immediate right and shall issue a requisition for a warrant to draw such amount(s) as due from any funds available to the Agency to make such payments as required under the User Agreement. As long as DFA continues to draw such amounts as are due from any funds available to the Agency, this Master Lease Agreement shall remain in effect with respect to such Agency's User Agreement.

*Community College Districts:* Pursuant to the provisions of Section 3.3 hereof, in the event that a Community College District fails to make any payment on the date due as required pursuant to its User Agreement, DFA has the immediate right to draw such amount(s) as due from any funds allocated for such Community College District in the State appropriations for the use and support of the Community College District, pursuant to the Master Lease Statute. DFA hereby covenants to exercise its warrant authority and to draw such amounts from any funds allocated for the Community College District in the State appropriations for the use and support of the Community College Districts in the event that a Community College District fails to timely make its payments as required under the User Agreement. As long as DFA continues to draw such amounts from any funds allocated in the State appropriations for the use and support of Community College Districts, this Master Lease Agreement shall remain in effect with respect to such Community College District's User Agreement.

Section 3.5. Return of the Equipment. Upon the termination of the lease term for any one or more or all of the items of the Equipment prior to the payment of all Lease Payments scheduled therefor, Lessee shall return such Equipment to Lessor at a location within the State of Mississippi agreed upon by Lessee and Lessor, in the condition, repair, appearance and working order required under this Master Lease Agreement within fifteen (15) days of receipt of instructions of Lessor, and all of Lessee's interest to such Equipment will revert to Lessor and Lessee will deliver or cause to be delivered to Lessor any documents reasonably requested by Lessor to evidence such conveyance.

## **ARTICLE IV TERMINATION**

Section 4.1. Termination of Lease Term. The lease term for any one or more items of the Equipment and the related User Agreement and related Equipment Schedule will terminate as indicated below upon the earliest of any of the following events:

- (a) with respect to the nonappropriation of funds for all or less than all of the items of the Equipment listed on the related Equipment Schedule as contemplated by Section 3.3 of this Master Lease Agreement, on the last day of the fiscal year for which appropriations were made. In the event that the nonappropriation is with respect to less than all items of Equipment listed on the related Equipment Schedule, the lease term with respect to all items of Equipment listed on the related Equipment Schedule and the related User Agreement shall also terminate as if such items of Equipment had also been affected by the nonappropriation;
- (b) a default by Lessee and Lessor's election to terminate the lease term for all or any items of Equipment pursuant to Section 8.3 of this Master Lease Agreement;
- (c) the payment by Lessee of the then applicable Purchase Option Price for an item of the Equipment as contemplated in Section 7.2(b) of this Master Lease Agreement; or
- (d) the payment by Lessee of all Lease Payments scheduled to be paid hereunder by Lessee during the entire lease term applicable to an item of the Equipment.

### Section 4.2. Effect of Termination.

(a) Upon the termination of the lease term for the reason referred to in Section 4.1(a) hereof, Lessee shall not be responsible for the payment of any additional lease payments or other payments scheduled to become due beyond the last day of the fiscal year for which appropriations were made with respect to the items of the Equipment affected by the nonappropriation. However, Lessee shall be responsible for any unpaid payments or other amounts which were due prior to said date. In the event of termination of a User Agreement and related Equipment Schedule for the reason referred to in Section 4.1(a) hereof, there shall be applied as a reduction against each Lease Payment coming due on each lease payment date after such termination, an amount equal to the Participating User Lease Payment which would have been due on such date under such terminated User Agreement and related Equipment Schedule.

(b) Upon the termination of the lease term for all or any items of the Equipment for the reason stated in Section 4.1(b) hereof, Lessor may sell, lease or sublease the same in a commercially reasonable manner, and Lessee shall have no further rights whatsoever with respect thereto.

(c) Upon the payment by Lessee of an amount equal to the then applicable Purchase Option Price for all or any portion of the items of the Equipment subject to a Participating User Agreement as provided in Section 4.1(c) hereof, then the lease term for such item(s) of the Equipment shall terminate. In the event of the termination of the lease term for any item(s) of the Equipment for the reasons referred to in Section 4.1(c) hereof, there shall be applied as a reduction against each Lease Payment coming due on each Lease Payment Date after payment of such Purchase Option Price and termination an amount equal to the Participating User Lease Payment which would have been due on such date under the User Agreement and related Equipment Schedule relating to the Equipment so purchased.

(d) Upon the termination of the lease term for any item of the Equipment for the reasons stated in Section 4.1(c) or 4.1(d) hereof, Lessor shall warrant to Lessee that the item or items of Equipment are free and clear of any liens created by Lessor and Lessor shall execute any certificate which Lessee may reasonably request to evidence Lessee's payments in full under the terms of this Master Lease Agreement

with respect to such item of Equipment and to convey to Lessee any and all interest which Lessor may have with respect to such Equipment.

Section 4.3. Termination of Entire Master Lease Agreement. This Master Lease Agreement shall terminate upon the occurrence of the following:

- (a) There shall have occurred the termination of the lease term and the related User Agreement and related Equipment Schedule as applicable to each and every item of the Equipment; and
- (b) Lessee shall have paid to Lessor all amounts which Lessee is obligated to pay under the terms of this Master Lease Agreement.

## **ARTICLE V RESPONSIBILITIES OF LESSEE**

Section 5.1. Maintenance of the Equipment by Lessee. Except as provided in Section 5.3 hereof, Lessee agrees that for each item of the Equipment it shall cause the Participating User thereof at all times during the lease term, at such Participating User's own cost and expense, to maintain, preserve and keep such item of the Equipment in good repair, working order and condition subject to reasonable wear and tear.

Section 5.2. Taxes, Other Governmental Charges and Utility Charges. All of the Equipment and the purchase thereof by Lessor pursuant to the terms hereof and all Lease Payments to be made hereunder are exempt from all State sales, use and ad valorem taxes. Provided, however, in the event that the ownership, leasing, use, possession or acquisition of any item of the Equipment is found to be subject to taxation in any form by the State (except for income, privilege, and franchise taxes of Lessor), Lessee will pay or cause to be paid by the Participating User thereof, subject to the availability of appropriations therefore during the related lease term, all taxes and governmental charges of any kind whatsoever (the "taxes") that may at any time be lawfully assessed or levied against or with respect to any item of the Equipment and/or other property acquired as permitted under this Master Lease Agreement in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, any item of the Equipment. With respect to any taxes that may lawfully be paid in installments over a period of years, Lessee shall be obligated to pay only such installments as have accrued during the time the related lease term is in effect. Lessee and/or Participating User of such Equipment may at their own expense contest any such taxes which do not adversely affect the interests of Lessor by subjecting the Equipment to risk of loss by forfeiture. In the event of any such contest, Lessee and/or Participating User may permit such taxes to remain unpaid during the period of such contest until a final non-appealable decision is rendered. Lessee will pay or cause to be paid by the Participating User of the Equipment all utility and other charges incurred in the operation, maintenance, use and upkeep of any item of the Equipment. Lessee will pay or cause to be paid by the Participating User of the Equipment, or if requested by Lessor, shall reimburse Lessor for, all filing, registration or other similar fees, costs or expenses, other than any fees or expenses of legal counsel to Lessor, incurred by Lessor in connection with the perfection or release of any lawful security interest granted with respect to the Equipment pursuant to this Master Lease Agreement, provided, however, that if Lessor is so requested by Lessee or a Participating User, the cost of any such filing, registration or other similar fees, costs or expenses, that are known as of the effective date hereof with respect to the Equipment may be added to the cost of the Equipment to be acquired hereunder and financed pursuant to the terms hereof.

Section 5.3. Damage, Destruction and Insurance. Lessee will cause the Participating User at all times to maintain insurance against casualty loss with respect to the Equipment designated on such Participating User's User Agreement and related Equipment Schedule. Lessee shall furnish to Lessor a certificate of such insurance or a statement of self-insurance with respect to such Equipment with either a standard mortgagee endorsement or naming Lessor and the Participating User as loss payees and shall provide that Lessor and Lessee shall receive not less than thirty (30) days notice of any termination, cancellation or alteration of the terms of the insurance, provided, however, that if Lessor is so requested by

Lessee or the Participating User, the cost of any such insurance (other than the cost of self-insurance), that are known as of the effective date hereof with respect to the Equipment, may be added to the cost of the Equipment to be acquired hereunder and financed pursuant to the terms hereof. In the event such insurance is to be canceled, Lessee shall provide to Lessor evidence of replacement coverage at least ten (10) days prior to the date of cancellation. Upon the reasonable request of Lessor during the term of this Master Lease Agreement with respect to such Equipment, Lessee shall cause the Participating User thereof to provide certificates of insurance on such Equipment. Lessee and the Participating User thereof assume all risk of loss of or damage to such Participating User's Equipment from any cause whatsoever, and no such loss of or damage to the Participating User's Equipment shall relieve Lessee of the obligation to make the Lease Payments or to perform any other obligation under this Master Lease Agreement or the Participating User to make any payments required by it to Lessee. In the event of damage to any item of the Equipment, Lessee shall, or shall cause the Participating User thereof, to immediately place the same in good repair. If any item of the Equipment is lost, stolen, destroyed or damaged beyond repair, Lessee, at its option shall: (a) cause the Participating User to replace the same with like equipment in good repair which replacement shall become subject to this Master Lease Agreement; or (b) Lessee may exercise its option to purchase with respect to such item(s) of the Equipment, without premium or penalty, in the manner described in Section 7.2(b) hereof.

Section 5.4. Series 2020A User Agreement. Each Participating User designated in an Equipment Schedule has at or prior to the execution of this Master Lease Agreement entered into a Series 2020A User Agreement in substantially the form as attached hereto as **Exhibit "C"** with Lessee with respect to the Equipment designated to be used by it in an Equipment Schedule. The User Agreement includes, among other provisions, terms providing that: (a) the Participating User seek annual appropriations in its budget process in each fiscal year during the term of the lease for the Equipment subject to the Participating User's User Agreement in an amount sufficient to fund all payments to become due during such fiscal year with respect to such Equipment; (b) payments due from the Participating User in an amount at least equal to the Participating User Lease Payments for the Equipment subject to the Participating User's User Agreement will be paid, transferred or allocable to the Master Lease Purchase Repayment Account-Series 2020A to enable Lessee to make the Aggregate Lease Payments required by it under this Master Lease Agreement; and (c) Lessee may exercise its warrant authority in the event any payments are not made as required by the User Agreements.

Contracts in connection with the purchase and installation of the Equipment shall be let pursuant to bid awards made by the Participating User in accordance with all competitive bidding laws of the State applicable to public purchases and installations.

Section 5.5. Warranties. Lessor and Lessee acknowledge that each Participating User has selected both the Equipment and the vendor(s) from whom the Equipment is to be purchased or has been purchased. Lessee and each Participating User of such Equipment acknowledge and agree that the Equipment is of a size, design and capacity selected by the Participating User, that Lessor is not a manufacturer, vendor or distributor of such Equipment, and that except to the extent provided by State law and not otherwise waivable, Lessor has not made, and does not hereby make any representation, warranty or covenant, express or implied, with respect to the merchantability, condition, quality, durability, design, operation, fitness or use, or suitability of the Equipment in any respect whatsoever or in connection with or for the purpose and use of Lessee or Participating User, or any other representation, warranty or covenant of any kind or character, express or implied, with respect thereto.

Lessor hereby assigns to Lessee and the Participating User of such item of the Equipment during the lease term, to the extent permitted by law, all manufacturer's warranties, if any, that it may have, express or implied, with respect to the Equipment, and Lessor authorizes Lessee and/or the Participating User to obtain the customary services furnished in connection with such warranties at Lessee's and/or the Participating User's expense. Lessor authorizes Lessee and the Participating User, to the extent permitted by law, to enforce in its own name any warranty, representation or other claim enforceable against the manufacturer. Lessor assumes no responsibility for shipment, delivery, installation or maintenance, and all

claims of Lessee and the Participating User with respect hereto, whether for delay, damage or otherwise, shall be made against the manufacturer. The obligation of Lessee to pay the Lease Payments as defined in Section 3.2 shall not be abated, impaired or reduced by reason of any claims of Lessee or Participating User with respect to the Equipment, including but not limited to its condition, quality, workmanship, delivery, shipment, installation, defects or otherwise.

Section 5.6. Federal Taxation. Lessee and Lessor expressly contemplate that (i) as of the date of this Master Lease Agreement, the accrual of the Lease Payment obligations shall commence; (ii) on the date (the “Closing Date”) of the initial funding of this Master Lease Agreement (a) all rights, title and interest of Lessor in and to this Master Lease Agreement will be assigned for the benefit of the holders of the Certificates (as hereinafter defined) to U.S. Bank National Association, Brandon, Mississippi, as trustee (the “Trustee”), or any successor trustee appointed in accordance with the terms of that certain Trust Agreement, dated as of March 5, 2020 (the “Trust Agreement”), made and entered into by and among Lessor, Lessee and the Trustee, pursuant to which the \$1,305,000 “Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A)” (the “Certificates”) will be authenticated and delivered by the Trustee evidencing the direct and proportionate interests of the owners thereof in the right to receive the Lease Payments payable pursuant to this Master Lease Agreement; and (b) the Trustee will deposit to the Proceeds Fund, for further deposit to the Acquisition Fund and to the Certificate Fund (each established pursuant to the terms of the Trust Agreement) moneys contributed by the holders of the Certificates in the amounts set forth in the Trust Agreement or in a closing statement delivered in connection therewith. Lessee and Lessor intend that for purposes only of Federal income taxation, this Master Lease Agreement be treated as an obligation of Lessee incurred in the exercise of its borrowing powers, and that such component of each Lease Payment as is designated on **Exhibit “B”** hereto as the “Interest Component” be now and forever more excludible pursuant to section 103(a) of the Code, and the related regulations, and rulings from the gross income of the holder(s) of such obligation for purposes of Federal income taxation. Accordingly, Lessee hereby covenants that it shall take no action and shall not omit to take any action, and will require that the Participating Users take no action and not omit to take any action, the taking or omission of which could cause the interest component of any Lease Payment (as shown on **Exhibit “B”** hereof) to fail to be excludible pursuant to section 103(a) of the Code from the gross income of the recipient thereof for Federal income tax purposes or could cause such interest component to be treated as an item of tax preference within the meaning of section 57(a) of the Code for purposes of the alternative minimum income tax. Without limitation of the covenant contained in the preceding sentence, Lessee makes and enters into the following specific covenants for the benefit of Lessee, the Trustee, and all holders of the Certificates (be they such holders now or in the future):

- (i) Lessee shall take no action, and shall not omit to take any action, and will require that the Participating Users take no action and not omit to take any action, the effect of which could be to cause this Master Lease Agreement or the Certificates to be deemed an “arbitrage bond” within the meaning of section 148 of the Code or otherwise cause the interest components of the Lease Payments (as shown on **Exhibit “B”** hereof) to be includible in gross income for Federal income tax purposes under existing law or from income taxation under the laws of the State. Lessee will cause an appropriate official to execute and deliver to Lessor and the Trustee on the Closing Date a certificate setting forth its reasonable expectations and containing certain covenants and representations as to the application and investment of all proceeds of this Master Lease Agreement (including all contributions by holders of Certificates, and certain other moneys allocable under section 148 of the Code to this Master Lease Agreement), and Lessee agrees to abide by all covenants and representations contained in said certificate as though the same were contained in this Master Lease Agreement.
- (ii) Without limiting the generality of the foregoing, Lessee shall comply with the provisions of section 148(f) of the Code, requiring that under certain circumstances Lessee rebate or cause to be rebated to the United States amounts measured in respect of the investment of gross proceeds of this Master Lease Agreement (including the amounts held in the Acquisition Fund and in the Funds under the Trust Agreement). In such regard Lessee acknowledges that certain investment earnings on funds,

including the Acquisition Fund, may be subject to “rebate” to the United States Treasury pursuant to section 148(f) of the Code and regulations promulgated thereunder, and Lessee agrees that any amounts subject to such rebate will be deposited into a segregated account and held and invested until rebate is required pursuant to said section 148(f) and such regulations or a determination is made to the reasonable satisfaction of Lessor and Lessee that rebate is not required. Using such consultants as it deems necessary, Lessee shall compute and pay over amounts rebatable to the United States Treasury at such times as required by section 148(f) of the Code. The obligation of Lessee to make such payments is unconditional and is not limited to funds received by Lessee pursuant to this Master Lease Agreement or income from the investment thereof or any other particular source. In the event rebate is not required, or if the amounts so deposited exceed the amount necessary to be rebated and expenses incurred in connection therewith, such amounts or such excess amount shall be paid to Lessee. Lessee shall keep and make available to Lessor and its assignees (including the Trustee) all records and computations made or caused to be made in connection with its satisfaction of this covenant for a period of six years following the final termination of this Master Lease Agreement.

- (iii) During the lease term, the Equipment will be used by the Participating Users only for the purpose of performing one or more governmental or proprietary functions of such Participating User consistent with the permissible scope of such Participating User’s authority and will not be used in a trade or business of any person or entity other than such Participating User.
- (iv) Lessee shall not and shall cause the Participating Users to not lease or otherwise make any of the Equipment available for use by any other person or entity if such lease or other availability would affect the status of the interest component of the Lease Payments as tax-exempt under section 103 of the Code for Federal income tax purposes. Lessee acknowledges that in determining whether the Equipment is used, directly or indirectly, in the trade or business of any other person for purposes of the preceding sentence, use of the Equipment pursuant to a lease, management contract or other arrangement must be examined. Without limiting the generality of the covenant set forth in the initial sentence of this clause (iv), Lessee agrees that it will not, and will cause the Participating Users to not, enter into any lease, management contract or other arrangement between Lessee and/or any Participating User and any other person with respect to the Equipment unless such arrangement satisfies the guidelines set forth in Rev. Proc. 97-13, as such guidelines are amended in accordance with the provisions of the Tax Reform Act of 1986.
- (v) Lessee will prepare or cause to be prepared and will file or cause to be filed a Form 8038-G or Form 8038-GC, as appropriate, in the manner and within the time provided by section 149(e) of the Code.

Section 5.7. Restriction on Mortgage or Sale of Equipment by Lessee. Lessee will not mortgage, sell, assign, transfer or convey the Equipment or any portion thereof during the term of this Master Lease Agreement without the prior written consent of the Lessor.

## **ARTICLE VI**

### **TITLE; LIEN; USE OF THE SERIES 2020A EQUIPMENT**

Section 6.1. Title to the Equipment. During the lease term, title to the Equipment and any and all additions, repairs, replacements or modifications thereto, shall be vested in Lessee, or the Participating User, provided that for any item of the Equipment that is subject to Section 25-53-5 or Section 31-7-10, et seq. of the Mississippi Code, title to such Equipment shall be deemed to be and shall vest in the State of Mississippi Department of Information Technology Services, as provided in that certain Assignment of Title and Consent to Lease, dated of even date herewith, and executed by, among others, the parties hereto.

Section 6.2. Liens. During the lease term, Lessee and the Participating Users shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim

on or with respect to any item of the Equipment, other than the respective rights of Lessor and Lessee as herein provided.

Section 6.3. Personal Property. To the maximum extent permitted by applicable law, each item of the Equipment is and shall at all times be and remain personal property notwithstanding that such item of the Equipment or any part thereof may be or hereafter become in any manner affixed or attached to or embedded in or permanently rested upon real property or any improvements thereon.

Section 6.4. Use of the Equipment. Lessee will require each Participating User of the Equipment not to install, use, operate or maintain any item of the Equipment improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Master Lease Agreement. Lessee shall cause each Participating User to provide all permits and licenses, if any, necessary for the installation and operation of each item of the Equipment. In addition, Lessee agrees and shall cause each Participating User to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each item of the Equipment) with all laws of the jurisdictions in which its operations involving any item of the Equipment may extend and with all regulations, orders and decrees of any legislative, executive, administrative or judicial body exercising any power or jurisdiction over any item of the Equipment; provided, however, that Lessee and/or Participating User may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not adversely affect the estate of Lessor in and to any item of the Equipment or its interest or rights under this Master Lease Agreement.

Section 6.5. Security Interest. There is hereby granted by Lessee and established for the benefit of Lessor, a security interest under the Mississippi Uniform Commercial Code or other applicable law in the Equipment, the proceeds thereof and all repairs, replacements, substitutions, and modifications thereto or thereof in order to secure Lessee's payment of all Lease Payments due during the term of this Master Lease Agreement and the performance of all other obligations herein to be performed by Lessee. Lessee will join with Lessor in executing such financing statements or other documents and will perform such acts as are required to establish and maintain a valid perfected security interest in the Equipment.

## ARTICLE VII SALE, ASSIGNMENT, SUBLEASING, SUBSTITUTION AND PREPAYMENT/PURCHASE OPTIONS

Section 7.1. (a) Sale, Assignment, Subleasing or Substituting by Lessee. Neither this Master Lease Agreement nor the interest of Lessee or any Participating User in any item of the Equipment may be sold, assigned or subleased without the consent of Lessor. Subject only to the provisions of Section 5.6 hereof, Lessee may transfer, and Lessee is hereby granted the right to transfer, the use of any item of the Equipment to any agency or community college district of the State provided that such entity has executed and delivered to Lessee a User Agreement substantially in the form attached hereto as **Exhibit "C"**.

(b) Assignment by Lessor. All of Lessor's rights, title, and/or interest in and to this Master Lease Agreement, the Lease Payments and any other amounts due hereunder, and the Equipment may be assigned and reassigned in whole or in part to one or more assignees or subassignee by Lessor at any time, with notice to Lessee. Lessee agrees to pay all Lease Payments due hereunder to or at the direction of Lessor or the assignee named in the most recent assignment or notice of assignment filed with Lessor.

### 7.2 Option to Prepay; Option to Purchase

(a) Option to Prepay. On and after April 15, 2023, and on each Lease Payment Date thereafter, Lessee may at its option elect to prepay the Lease Payments due hereunder in part, but only in amounts equal to or exceeding \$50,000 per prepayment. Lessee agrees to provide written notice to Lessor of its intention to prepay not less than forty-five (45) days prior to the applicable Lease Payment Date.

(b) Option to Purchase. (i) On and after April 15, 2023, and on each Lease Payment Date thereafter, Lessee may at its option elect to purchase all the Equipment subject to any User Agreement by payment of the Purchase Option Price set forth on the applicable Participating User Lease Payment Schedule. Lessee agrees to provide not less than forty-five (45) days written notice to Lessor of Lessee's intent to exercise its option to purchase, and such notice shall specify the applicable Equipment to be purchased, the applicable Lease Payment Date on which Lessee intends to exercise its option to purchase, and the applicable Purchase Option Price.

(ii) On and after April 15, 2023, and on each Lease Payment Date thereafter, Lessee may at its option elect to purchase less than all of the Equipment subject to any User Agreement by payment of the applicable Purchase Option Price as calculated by Lessor and not the Trustee. Upon notification by Lessee that Lessee intends to exercise its option to purchase less than all of the Equipment subject to any User Agreement, Lessor will calculate the Purchase Option Price(s) for one or more items of the Equipment and will notify Lessee, the applicable Participating User, and the Trustee of such Purchase Option Price. Lessee agrees to provide not less than forty-five (45) days written notice to Lessor of Lessee's intent to exercise its option to purchase, and such notice shall specify the applicable items of such Equipment to be purchased and the applicable Lease Payment Date on which Lessee intends to exercise its option to purchase.

In the event that Lessee exercises its option to purchase one or more items of Equipment in accordance with the provisions of this **Section 7.2(b)**, Lessor shall warrant, subject to the terms and provisions of the Trust Agreement, to Lessee that the item or items of Equipment listed on the applicable User Agreement and related Equipment Schedule are free and clear of any liens created by Lessor. Lessor agrees to execute or cause to be executed any certificate that Lessee may reasonably request to convey to Lessee any and all interest that Lessor may have with respect to such Equipment.

If Lessee elects to exercise any of the above options in accordance with this Section 7.2, Lessor and not Trustee agrees to recalculate and provide a substitute Lease Payment Schedule, one or more Participating User Lease Payment Schedules, and other schedules, as appropriate.

## **ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES**

Section 8.1. Nature of Default. Notwithstanding anything to the contrary contained in this Master Lease Agreement or in any document or instrument executed or delivered in connection herewith, if an Event of Default has occurred by reason of failure of a Participating User to comply with the terms of any User Agreement, then such Event of Default shall be deemed to exist only with respect to such User Agreement, and the remedies provided in Section 8.3 or otherwise available shall be exercised only with respect to the Participating User in default under such User Agreement and the Equipment subject thereto. Lessee agrees to provide such information as Lessor or the Trustee may reasonably request regarding such Event of Default and to cooperate with Lessor or the Trustee and exercise all available powers and rights under the Master Lease Statute to remedy such Event of Default.

Section 8.2. Events of Default Defined. The following shall be "Events of Default" under this Master Lease Agreement and the terms "Events of Default" and "default" shall mean, whenever used in this Master Lease Agreement, any one or more of the following events:

- (a) Failure by Lessee to pay in full any Lease Payment required to be paid hereunder within five (5) business days of the due date specified herein for payment thereof; provided that if any such payment is not made on or before the due date, and subject to Section 3.3 hereof, such payment shall be increased by an amount equal to 10%/360 for each day after the due date until paid; provided however, that the total interest rate charged hereunder (inclusive of lease payment interest plus and any late payment interest assessed pursuant to this paragraph) shall not exceed the maximum interest rate provided by applicable law; or

(b) Failure by Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than payment of any Lease Payment as provided in Section 8.2(a) or failure to provide evidence of insurance within five (5) days of the due date for such evidence of insurance if required, for a period of thirty (30) days after written notice from Lessor or the Trustee specifying such failure and requesting that the failure be remedied is given to Lessee, or if such cannot be cured within a period of thirty (30) days, to have commenced in good faith to cure the same and diligently proceeded to cure the same within sixty (60) days, unless Lessor shall agree in writing to an extension of such time prior to its expiration; or

(c) Lessee becomes insolvent, is unable to pay its debts as they become due, makes an assignment for the benefit of creditors, applies or consents to the appointment of a receiver, trustee, conservator or liquidator for Lessee or for all or a substantial part of its assets, a petition for relief is filed by Lessee under Federal bankruptcy, insolvency or similar laws, or a petition in a proceeding under any bankruptcy, insolvency or similar laws is filed against Lessee and is not dismissed within thirty (30) days thereafter.

If by reason of force majeure Lessee is unable in whole or in part to carry out the agreements on its part herein contained, other than the obligations on the part of Lessee contained in Article III hereof, Lessee shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following; acts of God; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; or explosions.

Notwithstanding anything contained in this Section 8.2 to the contrary, (i) a failure by Lessee to pay when due any payment required to be made under this Master Lease Agreement or (ii) a failure by Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Master Lease Agreement, and such failure described in (i) or (ii) of this paragraph results from a failure by the Lessee or a Participating User to appropriate moneys as contemplated by Section 3.3 hereof and a further failure by DFA to exercise its warrant authority and intercept funds allotted to the applicable Participating User as contemplated by Section 3.4 hereof, shall not constitute an Event of Default under this Section 8.2, and except as otherwise provided in Section 3.3 hereof, this Master Lease Agreement with respect to the item or items of the Equipment so affected by nonappropriation shall be terminated without adverse effect to the remaining Equipment leased under this Master Lease Agreement.

**Section 8.3. Remedies on Default.** Whenever any Event of Default referred to in Section 8.2 shall have happened and be continuing, Lessor shall have the right, without any further demand or notice, to take one or any combination of the following remedial steps:

(1) terminate this Master Lease Agreement with respect to all items of the Equipment (the "Affected Equipment") described in or subject to any User Agreement then in default or, at Lessor's option, the specific item or items of the Equipment for which payment was not made and upon such termination Lessee shall be responsible for the payments required by Section 4.2(c) hereof; and/or

(2) take whatever action at law or in equity may appear necessary or desirable to collect the Lease Payment or other payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of Lessee under this Master Lease Agreement; and/or

(3) by written notice to Lessee, request Lessee to (and Lessee hereby agrees that it shall), at Lessee's expense, promptly return the Affected Equipment pursuant to Section 3.5.

**Section 8.4. No Remedy Exclusive.** No remedy herein conferred upon or reserved to Lessor is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other

remedy given under this Master Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

## **ARTICLE IX MISCELLANEOUS**

Section 9.1. Notices. Unless otherwise specifically provided, all notices, certificates, requests or other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed received when personally delivered, transmitted by facsimile or telecopy or mailed by certified mail, postage prepaid, to Lessor and Lessee at their respective address as set forth on the signature pages hereof, until otherwise notified of a change in address.

### Section 9.2. Binding Effect and Assignment.

(a) This Master Lease Agreement shall inure to the benefit of and shall be binding upon Lessor and Lessee and their respective successors and assigns. Except as provided in this Section 9.2 or as otherwise specifically provided for in Section 7.1 of this Master Lease Agreement, neither party shall assign this Master Lease Agreement nor their respective rights hereunder except by the written agreement of the parties hereto.

(b) Lessor shall not, and Lessor shall not permit any other party to, offer or sell any right, title or interest in this Master Lease Agreement or the right to receive payments hereunder, otherwise than in accordance with all applicable state and Federal securities laws.

(c) Lessee acknowledges and consents to the assignment described in Section 5.6 of this Master Lease Agreement.

Section 9.3. Severability. In the event any provision of this Master Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9.4. Entire Agreement and Amendments. This Master Lease Agreement and exhibits hereto constitute the entire agreement between the parties with respect to the transactions contemplated hereby. The terms of this Master Lease Agreement shall not be waived, altered, modified, supplemented or amended in any manner whatsoever except by written instrument signed by Lessor or its assigns and Lessee.

Section 9.5. Execution of Counterparts. This Master Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 9.6. Applicable Law, Venue; Jurisdiction. This Master Lease Agreement shall be governed by and construed in accordance with the laws of the State of Mississippi. In the event any action or litigation is brought by any party arising out of or relating to this Master Lease Agreement, such action or litigation shall be brought in a State court located in the First Judicial District of Hinds County, Mississippi and each of the parties hereby submit themselves to the jurisdiction of such courts in the State of Mississippi.

Section 9.7. Representative Authority to Contract. By signing this Master Lease Agreement, the representative of Lessor hereby represents that such person is duly authorized by Lessor to execute this Master Lease Agreement on behalf of Lessor and that Lessor agrees to be bound by the provisions hereof.

## **ARTICLE X NATURE OF AGREEMENT**

The Lessor and the Lessee agree that it is their intention that the interest of the Lessor in the Equipment is as a secured party and the interest of Lessee is as a debtor, and that Lessor neither has nor will have any equity or title in the Equipment. It is the agreement of the parties that the Aggregate Lease Payments provided for hereunder constitute the purchase price of the Equipment together with the interest on the unamortized amount thereof over the term of this Master Lease Agreement, that each Aggregate Lease Payment constitutes principal and interest, in accordance with the Payment Schedule attached as Exhibit B hereto, which fully amortizes the purchase price of the Equipment, together with interest, over the term of this Master Lease Agreement, and that upon the due and punctual payment and performance of the Aggregate Lease Payments and other amounts and obligations under this Master Lease Agreement, any lien or security interest of the Lessor or its assignee shall be removed.

## **ARTICLE XI DEFEASANCE**

Notwithstanding any provision herein to the contrary, the Lessee or one or more Participating Users may elect to defease, in whole or in partial amounts equal to or exceeding \$50,000 of its respective obligations hereunder by irrevocably depositing with the Trustee (i) moneys sufficient (in the opinion of an independent certified public accountant acceptable to the Lessee, First Southwest Leasing, and the Trustee) to pay such obligations as they become due, and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys (in the opinion of an independent certified public accountant acceptable to the Lessee, First Southwest Leasing, and the Trustee) to pay such obligations as they become due and payable. In this section, "Government Obligations" means United States Treasury Notes, bonds, bills, or certificates of indebtedness, including State and Local Government Series securities, or other obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

The exercise of the option to defease in whole or in part hereunder will not affect any of the covenants, agreements, or other obligations of Lessee hereunder or of the Participating User under the User Agreement, including the obligation to continue to make Lease Payments thereunder to the extent the moneys on deposit for such defeasance are insufficient for such purpose.


In the event that the Lessee exercises its option to defease in accordance with this Article XI, First Southwest Leasing shall warrant, subject to the terms and provisions of the Trust Agreement, to the Lessee that the item or items of Equipment related to such defeasance and listed on this Master Lease Agreement and Exhibit A hereto are free and clear of any liens created by Lessor, to the extent so defeased. Lessor agrees to execute any certificate that the Lessee and Participating User may reasonably request to convey to the Lessee and/or Participating User any and all interest that Lessor may have with respect to such Equipment.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE.]

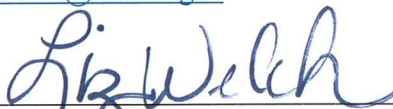
IN WITNESS WHEREOF, Lessor has caused this Master Lease Agreement to be executed in its name and attested by its duly authorized officers, and Lessee has caused this Master Lease Agreement to be executed in its name and attested by its duly authorized representatives, all as of the date first above written.

**FIRST SOUTHWEST LEASING COMPANY**

1201 Elm Street  
Suite 3500  
Dallas, Texas 75270  
Attn: Vice President  
Phone No. (214) 953-8874  
[vickie.hall@hilltopsecurities.com](mailto:vickie.hall@hilltopsecurities.com)

By:   
Vickie Hall  
Vice President

**STATE OF MISSISSIPPI**, represented by and  
acting through the State of Mississippi  
Department of Finance and Administration  
501 North West Street, Suite 1301  
P. O. Box 267 (39205)  
Jackson, Mississippi 39201  
Attn: Executive Director  
Phone No. (601) 359-3402  
[Liz.Welch@dfa.ms.gov](mailto:Liz.Welch@dfa.ms.gov)

By:   
Liz Welch  
Interim Executive Director

**EXHIBIT "A"**  
**EXPECTED EQUIPMENT SCHEDULES FOR MASTER LEASE PURCHASE**  
**SERIES 2020A- STATE OF MISSISSIPPI**

**A.     *ELLISVILLE STATE SCHOOL***

- |  |                |
|--|----------------|
| • HP Desktop Computers   | \$ 154,600     |
| • Fujitsu ScanSnap Scanners  | 14,250         |
| • Meraki Network Switches  | 22,400         |
| • Meraki Wireless Access Points  | 8,750          |
| • Netsmart Electronic Medical Record Software<br>and required installation | <u>677,532</u> |

*Total equipment to be acquired by*

***ELLISVILLE STATE SCHOOL (five-year term)*** ***\$877,532***

**B.     *COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT***

- |  |                  |
|--|------------------|
| • Lab computers (quantity 406); lecterns for faculty and staff (quantity 27);<br>security camera (quantity 36); iSeries AS40 | <u>\$400,000</u> |
|--|------------------|

*Total equipment to be acquired by*

***COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT***  
***(four-year term)***

***\$400,000***

**TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2020A**

**\$1,277,532**

**EXHIBIT “B”**

**THE SERIES 2020A AGGREGATE LEASE PAYMENT SCHEDULE**

Equipment Amount	\$1,277,532
Length of Lease	(varies; 5-year maximum)
Annual Percentage Rate	2.96816% (approximate APY)
Dated Date	March 5, 2020

<b>Payment Date</b>	<b>Principal Amount</b>	<b>Interest Amount</b>	<b>Total Payment Amount</b>
4/10/2020	\$143,032.99	\$3,684.98	\$146,717.97
10/10/2020	129,888.10	16,829.87	146,717.97
4/10/2021	131,814.53	14,903.44	146,717.97
10/10/2021	133,769.58	12,948.39	146,717.97
4/10/2022	135,753.60	10,964.37	146,717.97
10/10/2022	137,767.06	8,950.91	146,717.97
4/10/2023	139,810.37	6,907.60	146,717.97
10/10/2023	141,883.99	4,833.98	146,717.97
4/10/2024	91,228.52	2,729.60	93,958.12
10/10/2024	92,583.26	1,374.86	93,958.12
<b>TOTALS</b>	<b><u>\$1,277,532.00</u></b>	<b><u>\$84,128.00</u></b>	<b><u>\$1,361,660.00</u></b>

## EXHIBIT “C”

### SERIES 2020A PARTICIPATING USER AGREEMENT

This **SERIES 2020A PARTICIPATING USER AGREEMENT** (this “User Agreement”), dated as of March 5, 2020, is made and entered into by and between the \_\_\_\_\_, a duly organized and validly existing [agency] [community college district] (the “Participating User”) of the State of Mississippi and the **STATE OF MISSISSIPPI**, represented by and acting through the State of Mississippi Department of Finance and Administration (herein referred to as “DFA”).

### RECITALS

WHEREAS, pursuant to the authority granted by Section 31-7-10 of the Mississippi Code of 1972, as amended (the “Mississippi Code”), DFA on behalf of the State of Mississippi (the “State”) is authorized to develop a Master Lease Purchase Program (the “Program”) and to execute on behalf of the State master lease purchase agreements for the purchase of equipment to be used by agencies or departments (each, an “Agency”), or community college districts (each, a “Community College District” or “the District” and together with the Agencies, being herein referred to as the “Participating Users”) of the State of Mississippi; and

WHEREAS, pursuant to such authority and as a part of the Program, DFA on behalf of the State has entered into that certain Series 2020A Master Lease Purchase Agreement (the “Master Lease Agreement”), dated as of March 5, 2020, with First Southwest Leasing Company (“Lessor”), pursuant to which DFA may lease purchase equipment from Lessor for use by Participating Users on the terms and conditions provided therein; and

WHEREAS, the Participating User desires to participate in the Program and to have acquired by lease purchase under the Master Lease Purchase Agreement certain items of equipment which the Participating User shall use on the terms and conditions as provided in this User Agreement.

NOW, THEREFORE, for and in consideration of the foregoing recitals and the covenants and agreements contained herein, the parties do hereby agree as follows:

1. The Series 2020A Participating User Equipment. In consideration of the payments provided herein, and the other covenants contained herein, DFA hereby agrees to acquire by lease purchase under the Master Lease Agreement, for the Participating User’s use, equipment and other personal property (the “User Equipment”) described in the Equipment Schedule(s) attached hereto and incorporated herein by reference as **Exhibit “A”** (collectively, the “Equipment Schedule”) upon the terms and conditions as provided for in this User Agreement. The Participating User certifies by execution hereof that an amount sufficient for payments to be made under this User Agreement has been appropriated for the remainder of the fiscal year in which this User Agreement is executed.

The Participating User further certifies that it has complied with all competitive bidding laws applicable to State purchases and the total purchase price for each piece of User Equipment as set forth in the Equipment Schedule is the firm price as quoted by the successful bidder for such item of User Equipment. The Participating User agrees that it will be responsible for any and all amounts in excess of the “Amount of the Lease Purchase” in the Equipment Schedule for any items of the User Equipment.

2. Payment of the Purchase Price of the User Equipment. Upon receipt and acceptance of an item of User Equipment, the Participating User shall promptly complete and submit to Lessor a Request for Disbursement in the form attached hereto as **Exhibit “B”** together with all attachments required thereby. If funds are to be disbursed by the Trustee simultaneously with the execution and delivery and initial funding of the Master Lease Agreement, a closing statement (the “Closing Statement”) will be delivered to the Trustee at that time. Upon receipt of a Closing Statement or a Request for Disbursement conforming to the requirements of the Master Lease Agreement by Lessor, Lessor shall cause to be disbursed funds for payment of the purchase price of the User Equipment. **The Participating User agrees with respect to the User Equipment described in the Equipment Schedule, that any obligations, covenants or agreements that DFA, as Lessee, has made or which DFA has agreed to cause the Participating User to perform under the Master Lease Agreement, including, without limitation, the obligation to procure insurance coverage with respect to the User Equipment and to pay or cause to be paid, or if requested by Lessor, to reimburse Lessor for, all filing, registration or other similar fees, costs or expenses, other than any fees or expenses of legal counsel to Lessor, incurred by Lessor in connection with the perfection or release of any security interest granted with respect to the User Equipment, shall be deemed an obligation of the Participating User and that the terms and conditions of the Master Lease Agreement applicable to DFA, the User Equipment and the Participating User are in turn binding upon the Participating User as if written herein, provided, however, that if Lessor is so requested by the Participating User, the cost of any such insurance (except self-insurance) and any such filing, registration or other similar fees, costs or expenses, that are known as of the effective date hereof with respect to the User Equipment, may be added to the cost of the User Equipment to be acquired hereunder and financed pursuant to the terms hereof.**

3. Payments. The Participating User agrees that for and in consideration of DFA lease purchase of the User Equipment and use thereof by the Participating User, the Participating User shall on the dates set forth on the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”** (each such date being at least five (5) business days prior to the date on which the corresponding Lease Payment is due to be paid by DFA pursuant to the Master Lease Agreement), transfer into the Master Lease Purchase Repayment Account-Series 2020A (the “Fund”) maintained by the Mississippi State Treasury, the Series 2020A Participating User Lease Payments (the “Participating User Lease Payments”) described in the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”**. If any Participating User Lease Payment is due on a day which is not a business day (“business day” being defined as a day on which the offices of the State and banks located in the State and in the State of Mississippi are not required by law to close), such Participating User Lease Payment shall be due on the next day which is a business day. The Participating User hereby acknowledges and agrees that (i) DFA will aggregate the Participating User Lease Payments with similar payments from other Participating Users and will cause all the Participating User Lease Payments to be paid to the Trustee (as defined in the Master Lease Agreement) on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement, (ii) the Participating User Lease Payments will be applied to make the Series 2020A Aggregate Lease Payments (of which the Participating User Lease Payments will be deemed a part) to the owners of the Certificates in the amounts and on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement. In addition, upon notice from DFA, the Participating User shall transfer to the Fund any other payments required to be made by DFA with respect to such User Equipment pursuant to the terms of the Master Lease Agreement.

The Participating User agrees that all payments are due to DFA on the dates indicated on the Participating User Lease Payment Schedule, without offset, abatement or deduction of any amounts whatsoever, notwithstanding the fact that an item or items of User Equipment has not been delivered or accepted, or have been found not to satisfy the needs of the Participating User. The Participating User, at its discretion, may prepay all or any portion equal to or exceeding \$50,000 of the Participating User Lease Payments prior to the respective due dates thereof to DFA. Any Participating User Lease Payment paid to DFA prior to its respective due date will be held in the Fund until such amount is needed to pay the corresponding Series 2020A Aggregate Lease Payments.

[4. Warrant Authority. [Agencies]The Participating User acknowledges and agrees that pursuant to the laws of the State, in the event the Participating User fails to make any payment on the date due as required hereunder with respect to the User Equipment, DFA has the immediate right and shall issue a requisition for a warrant to draw such amount(s) as due from any funds available to the Participating User to make such payments.]

[4. Warrant Authority. [Community College Districts] The Participating User acknowledges and agrees that pursuant to the laws of the State, in the event the Participating User fails to make any payment on the date due as required hereunder with respect to the User Equipment, the Department has the immediate right and shall issue a requisition for a warrant to draw such amount(s) from funds allocated for the Participating User in the State appropriations for the use and support of the State's community colleges and to make such payments as are due.]

5. Security Interest. The Participating User acknowledges that the User Equipment subject to the Equipment Schedule under this User Agreement shall be subject to a security interest in favor of Lessor and hereby irrevocably authorizes and appoints DFA as its attorney-in-fact to sign Uniform Commercial Code financing statements or such other documents with respect to such User Equipment to perfect the security interest in favor of Lessor. To secure its obligations hereunder, the Participating User does hereby grant a security interest in the User Equipment to DFA and Lessor with respect to any interest it may have in the User Equipment and shall execute such financing statements or any other documents as are requested in order to perfect such security interest.

6. Representations of the Participating User. The Participating User does hereby represent with DFA and for the benefit of Lessor as follows:

(a) The Participating User is a validly existing [agency / community college district] of the State.

(b) The User Equipment is of a size, design, capacity and manufacture selected by the Participating User and the Participating User has selected said User Equipment without the assistance of DFA or Lessor. The User Equipment will be located as designated on the Equipment Schedule with respect thereto, and DFA shall be given at least thirty (30) days prior written notice of any change in location of any User Equipment.

(c) The Participating User's participation in the Program and the execution, delivery and performance by the Participating User of its obligations under this User Agreement and obligations as contained in the Master Lease Agreement as incorporated herein by reference have been duly authorized by all necessary action of the Participating User.

(d) Contracts in connection with the purchase and installation of the User Equipment have been let pursuant to bid awards made by the Participating User in accordance with all competitive bidding laws applicable to public purchases and installation.

(e) The User Equipment is essential to the Participating User's proper, efficient and economic functioning or to the services that it provides to the citizens of the State.

(f) The Participating User has an immediate need for and expects to make immediate use of the User Equipment, which need is not expected to diminish in the foreseeable future.

(g) The User Equipment shall be used by the Participating User only for the purpose of performing one or more of its governmental or proprietary functions consistent with the permissible scope of its authority.

(h) The Participating User intends to utilize the User Equipment for the entire term applicable to such item of User Equipment as specified in the Equipment Schedule applicable thereto and the Participating User reasonably believes that sufficient money will be appropriated for each fiscal year during the lease term applicable to such item of User Equipment to enable the Participating User to make all payments required to be made hereunder. The Participating User certifies that it will request in its budget in the categories of Equipment and Subsidies, or such other category as may be appropriate from time to time for each fiscal year during the lease term for an item of User Equipment, amounts sufficient to make the payments required hereunder for such User Equipment during such fiscal year and shall do any and all things in its power to secure annual appropriation of such amounts. THE PARTICIPATING USER AGREES THAT UNTIL THIS USER AGREEMENT IS TERMINATED AS PROVIDED IN PARAGRAPH 11 HEREOF, FUNDS APPROPRIATED IN THE CATEGORIES OF EQUIPMENT OR SUBSIDIES OR SUCH OTHER CATEGORY AS MAY REPLACE SUCH CATEGORIES FROM TIME TO TIME SHALL FIRST BE OBLIGATED AND ENCUMBERED FOR PAYMENTS REQUIRED TO BE MADE BY THE PARTICIPATING USER HEREUNDER PRIOR TO ANY PURCHASE OR ENCUMBRANCE OF FUNDS IN SUCH CATEGORIES BY THE PARTICIPATING USER FOR ANY OTHER PURPOSE AND THE PARTICIPATING USER HEREBY AUTHORIZES DFA TO ENCUMBER ON THE FIRST DAY OF EACH ALLOTMENT PERIOD OF EACH FISCAL YEAR SUCH FUNDS IN THE APPROPRIATE CATEGORIES AS ARE NECESSARY TO MEET THE PAYMENTS REQUIRED HEREUNDER FOR SUCH ALLOTMENT PERIOD DURING SUCH FISCAL YEAR.

(i) The Participating User hereby covenants that it shall take no action and shall not omit to take any action, the taking or omission of which could cause the interest component of any Lease Payment to fail to be excludible pursuant to section 103(a) of the Internal Revenue Code of 1986, as amended, and the related regulations and rulings (collectively, the "Code") from the gross income of the recipient thereof for Federal income tax purposes or could cause such interest component to be treated as an item of tax preference within the meaning of section 57(a) of the Code for purposes of the alternative minimum income tax. Without limitation of the covenant contained in the preceding sentence, the Participating User makes and enters into the following specific covenants for the benefit of DFA, the Trustee, and all holders of the Certificates:

- (i) The Participating User shall take no action, and shall not omit to take any action, the effect of which could be to cause this User Agreement, the Master Lease Agreement or the Certificates to be deemed an "arbitrage bond" within the meaning of section 148 of the Code or otherwise cause the interest components of the Lease Payments to be includible in gross income for Federal income tax purposes under existing law or to be subject to income taxation under the laws of the State.
- (ii) During the lease term, the User Equipment will be used by the Participating User only for the purpose of performing one or more governmental or proprietary functions of the

Participating User consistent with the permissible scope of the Participating User's authority and will not be used in a trade or business of any person or entity other than the Participating User.

- (iii) The Participating User shall not lease or otherwise make any of the User Equipment available for use by any other person or entity if such lease or other availability would affect the status of the interest component of the Lease Payments as tax-exempt under section 103 of the Code for Federal income tax purposes. The Participating User acknowledges that in determining whether the User Equipment is used, directly or indirectly, in the trade or business of any other person for purposes of the preceding sentence, use of the User Equipment pursuant to a lease, management contract or other arrangement must be examined. Without limiting the generality of the covenant set forth in the initial sentence of this clause (iii), the Participating User agrees that it will not enter into any lease, management contract or other arrangement between the Participating User and any other person with respect to the Agency User Equipment unless such arrangement satisfies the guidelines set forth in Rev. Proc. 97-13, as such guidelines are amended in accordance with the provisions of the Tax Reform Act of 1986.
- (iv) The Participating User agrees to comply with the provisions of section 148(f) of the Code. In such regard, the Participating User acknowledges that certain investment earnings on funds, including a proportionate amount of the funds held in the Acquisition Fund held on its behalf, may be subject to "rebate" to the United States Treasury pursuant to section 148(f) of the Code and regulations promulgated thereunder. The Participating User agrees to pay to Lessee all amounts subject to such rebate. The obligation of the Participating User to make such payments is unconditional and is not limited to funds received by the Participating User pursuant to this User Agreement or income from the investment thereof or any other particular source.
- (j) The Participating User shall keep the User Equipment insured against loss, theft, damage and destruction for not less than the full insurable value thereof and such insurance shall either contain a standard mortgagee endorsement or shall name Lessor and DFA as loss payee during the lease term applicable to such item of the Agency User Equipment and shall provide that Lessor and DFA receive not less than ten (10) days notice of termination, cancellation or alteration of the terms of such insurance. The Participating User shall provide DFA with certificates of insurance or a statement of self-insurance evidencing the insurance required upon submission of the Request for Disbursement and as requested thereafter from time to time.
- (k) The Participating User agrees that for each item of the Equipment described in the Equipment Schedule, the Participating User, at the Participating User's own cost and expense, shall maintain, preserve and keep such item of the Equipment described in the Equipment Schedule in good repair, working order and condition subject to reasonable wear and tear.

7. Title. Title to the Equipment and all additions, repairs, replacements or modifications thereto, shall be vested in the Participating User, so long as the Participating User is not in default under this User Agreement.

8. Surrender of Equipment; Default. In the event the Participating User fails to make any payments or perform its obligations hereunder (a "Default") or upon termination due to nonappropriation of funds to the Participating User with respect to any item or items of User Equipment subject hereto, the Participating User agrees that upon notice from DFA or Lessor, the Participating User shall deliver all of the items of the User Equipment subject to this User Agreement to such location as designated by DFA or

Lessor, at the Participating User's expense. In the event of any default hereunder which results in liability to DFA as a result thereof, then the Participating User agrees to immediately transfer into the Fund upon notice such payments required of DFA under the Master Lease Agreement.

9. Nonappropriation. If appropriations for all items of the User Equipment on the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last lease payment for the current fiscal year, the Participating User shall notify in writing the Executive Director of DFA of such nonappropriation not later than five (5) days prior to the date of the last lease payment for the current fiscal year, and this User Agreement shall terminate with respect to all items of the User Equipment identified on such Equipment Schedule as of the due date of the last lease payment for the current fiscal year due hereunder. The Participating User Lease Payment due on such date shall be paid by the Participating User. Such Equipment Schedule shall be terminated whether the nonappropriation is as to one or more or all items of User Equipment on the Equipment Schedule.

10. Budget and Appropriations Information. Until this User Agreement is terminated the Participating User shall provide to DFA within fifteen (15) days after the end of any fiscal year of the Participating User such certifications and proof of appropriations made to the Participating User for the User Equipment for the ensuing fiscal year on such forms as may be prescribed by DFA from time to time. The Participating User agrees that the funds appropriated shall be encumbered on the first day of each allotment period during such fiscal year as provided in paragraph 6(h), hereof.

11. Termination. This User Agreement shall terminate in its entirety upon the occurrence of the following:

- (a) Appropriations for all items of the Equipment described in the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last Participating User Lease Payment and the Participating User notifies DFA not later than five (5) days prior to the date of the last Participating User Lease Payment for the then current fiscal year;
- (b) There shall have occurred the termination of the lease term of each item of User Equipment; and Participating User shall have paid to DFA all amounts which the Participating User is obligated to pay hereunder; or
- (c) DFA shall not have entered into the Master Lease Agreement on or before March 5, 2020.

12. Prepayment Option/Purchase Option.

(a) Prepayment Option. Pursuant to Section 7.2(a) of the Master Lease Agreement, the Participating User has the option to prepay its obligations under this User Agreement in part, but only in amounts equal to or exceeding \$50,000 per prepayment, at the times and subject to the terms and conditions described in such Section 7.2(a). The Participating User may hereby request DFA to exercise its option to prepay in part by giving DFA at least sixty (60) days notice prior to the applicable prepayment date and by payment or transfer, as directed by DFA, into the Fund of amounts to be so prepaid.

(b) Purchase Option. Pursuant to Section 7.2(b) of the Master Lease Agreement, DFA has the option to purchase all or any portion of the Agency User Equipment, commencing on and after April 15, 2023, and further at the times and subject to the terms and conditions described in such Section 7.2(b). The Participating User may hereby request DFA to exercise its option to purchase all or any portion of the User Equipment under the Master Lease Agreement by giving DFA at least sixty (60) days notice prior to the purchase date and by payment or transfer, as directed by DFA, into the Fund of the applicable Purchase Option Price for such User Equipment.

The Participating User hereby agrees that if it requests DFA to exercise its option to purchase all or any part of the User Equipment, the Purchase Option Price shall be calculated by Lessor and provided to the Participating User and DFA.

Upon proper notice and transfer to the Fund of the applicable Purchase Option Price and any other amount, if any, owed by the Participating User to DFA with respect to such User Equipment and upon payment of the applicable Purchase Option Price by DFA to Lessor and payment by DFA to Lessor of all other amounts, if any, owed by Lessor with respect to such User Equipment, this User Agreement shall terminate as to the items of User Equipment so purchased. In such event, Lessor shall warrant, subject to the terms and provisions of the Trust Agreement, to Lessee that the item or items of User Equipment listed on this User Agreement and related Equipment Schedule are free and clear of any liens created by Lessor. Lessor has agreed in the Master Lease Agreement to execute any certificate that DFA may reasonably request to convey to DFA any and all interest that Lessor may have with respect to such User Equipment.

13. Binding Effect. The conditions, terms, provisions and covenants contained in this User Agreement shall apply to and inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. The Participating Agency User has no interest in the User Equipment other than the possession and use thereof during the term as provided in the Equipment Schedule with respect to any item of User Equipment and except as specifically set forth herein, cannot pledge, mortgage or grant a security interest in any item of the User Equipment.

14. Notices. All notices, demands and requests which may or are required to be given hereunder shall be in writing and shall be deemed to have properly been given and received when served personally, transmitted by facsimile or telecopy or when mailed postage prepaid by first class mail, registered or certified, to the address and attention of the representative designated for such party on the signature page hereof, until otherwise notified of a change in address for such party.

15. Further Assurances and Agreements. The Participating User will properly execute and deliver to DFA such further documents and take such further actions as DFA may reasonably request in order to effectively carry out the intent and purposes of this User Agreement and participation by the Participating User in the Program.

16. Defined Terms. Unless otherwise defined herein, all terms having a defined meaning in the Master Lease Agreement shall have the same meaning as used herein.

17. Defeasance. Notwithstanding any provision herein to the contrary, the Participating User may elect to defease, in whole or in partial amounts equal to or exceeding \$50,000 of its respective obligations hereunder by irrevocably depositing with the Lessee, for further deposit with the Trustee (i) moneys sufficient (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due, and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due and payable. In this section, "Government Obligations" means United States Treasury Notes, bonds, bills, or certificates of indebtedness, including State and Local Government Series securities, or other obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

The exercise of the option to defease in whole or in part hereunder will not affect any of the covenants, agreements, or other obligations of the Participating User hereunder, including the obligation to

continue to make the Participating User Lease Payments hereunder to the extent the moneys on deposit for such defeasance are insufficient for such purpose.

In the event that the Participating User exercises its option to defease in accordance with this Section 17, DFA shall warrant, subject to the terms and provisions of the Trust Agreement, to the Participating User that the item or items of Equipment related to such defeasance and listed on this User Agreement and Exhibit A hereto are free and clear of any liens created by DFA, to the extent so defeased. DFA agrees to execute any certificate that the Participating User may reasonably request to convey to the Participating User any and all interest that DFA may have with respect to such Equipment.

IN WITNESS WHEREOF, this User Agreement has been executed by the parties hereto by their duly authorized representatives.

**DEPARTMENT:**

**STATE OF MISSISSIPPI,**  
represented by and acting through  
the State of Mississippi  
Department of Finance and Administration  
501 North West Street, Suite 1301  
P.O. Box 267 (39205)  
Jackson, Mississippi 39201  
Attn: Executive Director  
Telecopy No. (601) 359-3402  
Liz.Welch@dfa.ms.gov

**PARTICIPATING USER:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Telecopy No. ( ) \_\_\_\_\_  
Phone No. ( ) \_\_\_\_\_

By: \_\_\_\_\_  
Liz Welch  
Interim Executive Director

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Exhibit “A”**  
The Equipment Schedule

## Exhibit "B"

### Request for Disbursement

**SERIES 2020A REQUEST FOR DISBURSEMENT NO.:** \_\_\_\_\_

REFERENCE: Master Lease Purchase Agreement ("Master Lease Agreement"), dated as of March 5, 2020, made and entered into by and between the **State of Mississippi**, Represented and Acting by and through the State of Mississippi Department of Finance and Administration ("Lessee") and First Southwest Leasing Company ("Lessor"), and the Series 2020A Participating User Agreement ("User Agreement"), dated as of March 5, 2020, made and entered into by and between the Lessee and \_\_\_\_\_ (the "Participating User").

1. The undersigned hereby certifies that:

- (a) This Request for Disbursement is in accordance with the Master Lease Agreement and the User Agreement and is either (check one of the following):
  - ( ) for payment to the vendor of the Equipment or the items thereof described on Attachment "A" hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment "B"; or
  - ( ) for payment of a reimbursement to the issuer or agency thereof for the Equipment or the items thereof described on Attachment "A" hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment "B", and payment remitted to the vendor (evidence of such payment is attached hereto); or
  - ( ) The Equipment has not been finally accepted; and, the disbursement is in payment of a progress payment authorized under the Master Lease Agreement and the User Agreement; or
  - ( ) The amount requested for payment is for payment or reimbursement for a progress payment for a portion of the Cost of a Project Financing.
- (b) The amount to be disbursed on this Request for Disbursement has not formed the basis of a previous request for payment and is due and owing.

2. Attached to this Request for Disbursement are the following (check each item attached) each of which is true and correct in all respects.

- ( ) a copy of the invoice of the vendor;
- ( ) a copy of the applicable purchase order and any change order issued in connection with the applicable purchase order;
- ( ) a copy of the bill of sale for each item of the Equipment for which a bill of sale may be delivered;
- ( ) a copy of the title or title application for each item of the Equipment for which a title is issued (title must list **U.S. Bank National Association, as trustee**, P.O. Box 4026, Brandon, Mississippi 39047, as lienholder; lienholder number "90018867500");
- ( ) a copy of any Certificate of Insurance or statement of self-insurance required under the Master Lease Agreement or User Agreement;
- ( ) if disbursement is requested in reimbursement of lawfully available funds previously expended by Lessee or the Participating User, a copy of the executed Declaration of Intent evidencing Lessee's intent to reimburse its funds with the proceeds of tax-exempt obligations.

3. Please disburse the following amount to the following Payee:

Payee: \_\_\_\_\_

Amount: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Invoice

No(s):\_\_

4. No event of default, as such term is defined in the Master Lease Agreement or the User Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

5. By executing this Request for Disbursement, the Participating User reaffirms all representations and covenants contained in the User Agreement as of the date hereof.

**EXECUTED** as of \_\_\_\_\_.

**<PARTICIPATING USER>**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Attachment “A”**

**The Accepted Equipment**

**Attachment "B"**  
**Form of Acceptance Certificate**

**DATE:** \_\_\_\_\_

Re: Master Lease Purchase Agreement ("Master Lease Agreement"), dated as of March 5, 2020, and entered into by and between the **State of Mississippi**, represented and acting by and through the State of Mississippi Department of Finance and Administration ("Lessee") and **First Southwest Leasing Company**, ("Lessor"), and the Series 2020A Participating User Agreement ("User Agreement"), dated as of March 5, 2020, made and entered into by and between the Lessee and \_\_\_\_\_ (the "Participating User"). Unless otherwise defined herein, all terms shall have the meaning ascribed thereto by the Master Lease Agreement.

Gentlemen:

Please refer to the above-described Master Lease Agreement and User Agreement. In accordance with the terms of the Master Lease Agreement and the User Agreement, the Participating User hereby certifies and represents to, and agrees with, Lessor as follows:

A. The Equipment described on the preceding **Attachment A** has been delivered and installed at the Equipment Location and such delivery and installation have been completed on or before the date hereof.

B. The Participating User has conducted such inspection and/or testing of the Equipment as it deems necessary and appropriate and hereby acknowledges that it accepts the Equipment for all purposes effective the date hereof.

C. No event of default, as such term is defined in the Master Lease Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

D. The Equipment described on the preceding **Attachment A** is covered against all risks pursuant to the policy of the insurance evidenced by the certificate of insurance attached hereto or is insured pursuant to a program of self insurance as required by the Master Lease Agreement and the User Agreement.

Yours truly,

**<PARTICIPATING AGENCY>**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Exhibit “C”**

The Series 2020A Participating User Lease Payment Schedule

**TRUST AGREEMENT**

made and entered into by and among

FIRST SOUTHWEST LEASING COMPANY, as Trustor,  
and  
U.S. BANK NATIONAL ASSOCIATION, BRANDON, MISSISSIPPI,  
as Trustee  
and  
THE STATE OF MISSISSIPPI,  
Represented by and Acting Through  
The State of Mississippi Department of Finance  
and Administration,

Securing

\$1,305,000  
PRIVATELY-PLACED  
LEASE REVENUE CERTIFICATES OF PARTICIPATION  
(MASTER LEASE PROGRAM, SERIES 2020A)

Evidencing Proportionate Interests in  
Lease Payments to be made pursuant to  
a Master Lease Purchase Agreement and  
Equipment Schedules thereto  
made and entered into by and between

THE STATE OF MISSISSIPPI,  
Represented by and Acting Through  
The State of Mississippi Department of Finance  
and Administration, as lessee

and

FIRST SOUTHWEST LEASING COMPANY, as lessor

Dated as of March 5, 2020

## Trust Agreement

THIS TRUST AGREEMENT, dated as of March 5, 2020 (the or this "*Trust Agreement*"), is entered into between **FIRST SOUTHWEST LEASING COMPANY**, as trustor hereunder (in such capacity, the "*Trustor*"), and a corporation organized and validly existing under the laws of the State of Delaware, **U.S. BANK NATIONAL ASSOCIATION, BRANDON, MISSISSIPPI**, as trustee hereunder (in such capacity, "*Trustee*"), a national banking association organized and existing under the laws of the United States of America and authorized to accept and execute trusts of the character herein set out with a corporate trust office located in Brandon, Mississippi, and the **STATE OF MISSISSIPPI**, represented by and acting through the Department of Finance and Administration, a sovereign State of the United States of America, as defined in section 103(c) of the Internal Revenue Code of 1986, as amended (the "*State*" or the "*Lessee*"), for the benefit of the Registered Owners from time to time of the Certificates (as defined herein) to be executed and delivered hereunder.

### Recitals:

A. The defined terms used in this Trust Agreement shall have the respective meanings indicated in **Article I** hereof unless elsewhere defined or the context shall otherwise require.

B. The State is authorized under Section 31-7-10(15) (the "*Act*") of the Mississippi Code of 1972, as amended (the "*Mississippi Code*") to develop a Master Lease Purchase Program (the "*Program*") and execute on behalf of the Lessee one or more master lease purchase agreements to acquire equipment to be used by State agencies and departments, and public school and community college districts located in the State;

C. Pursuant to the Program, the Trustor, in its capacity as lessor (in such capacity, the "*Lessor*"), and the State, in its capacity as lessee, will enter into that certain Series 2020A Master Lease Purchase Agreement and Equipment Schedules thereto (collectively, the "*Lease*"), dated as of even date herewith, pursuant to which the Lessor agrees to lease and sell on an installment basis certain equipment and other personal property (the "*Equipment*") to the Lessee, and the Lessee has agreed to lease and purchase the Equipment from the Lessor, on the terms and conditions set forth therein.

D. The Lessor and the Lessee have acknowledged that each item of the Equipment will be used by one or more Participating Users pursuant to the terms of the Lease and one or more Participating User Agreement (each, a "*User Agreement*") by and between the State and a Participating User.

E. In order to provide funds to (i) acquire the Equipment and (ii) pay the costs related to the execution and delivery of those certain Certificates (described below), the Trustor has made the necessary arrangements to sell participation interests in the Lease and the Lease Payments through the execution and delivery of those certain \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be made pursuant to a Master Lease Purchase Agreement and Equipment Schedules thereto made and entered into by and between the State of Mississippi, Represented by and Acting Through The State of Mississippi Department of Finance and Administration, as lessee and First Southwest Leasing Company, as lessor (the "*Certificates*"), to be executed and delivered by the Trustee hereunder. The Certificates evidence an undivided ownership interest in, and to be paid from, the Lease Payments (described below) assigned under the Assignment (described below) to be paid by the Lessee in accordance with the Lease and from certain other moneys for the payment thereof as herein provided.

F. The proceeds of the Certificates are to be applied by the Trustee in accordance with the terms hereof, including, to the extent provided herein, for the acquisition of the Equipment in accordance with the Lease.

NOW, THEREFORE, in consideration of the premises and the covenants and conditions hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE I DEFINITIONS

The following words and phrases shall have the following meanings for all purposes of this Trust Agreement:

*“Acceptance Certificate”* shall mean one or more Acceptance Certificates delivered pursuant to **Section 4.03** hereof.

*“Acquisition Fund”* shall mean the fund created by **Section 4.03** hereof.

*“Assignment”* shall mean that certain Absolute Assignment Agreement, dated as of the date hereof, from the Trustor (as assignor) to the Trustee (as assignee) with respect to the Lease, the Equipment and certain other interests.

*“Authorized Representative”* shall mean the Person signing a certificate to be delivered at Closing on behalf of the Lessee, or any other Person designated by the Lessee, in writing, to act for or on behalf of the Lessee in connection with the Lease.

*“Business Day”* shall mean a day of the year on which banks located in the State of Mississippi are not required or authorized by law to remain closed.

*“Certificate”* shall mean any of, and *“Certificates”* shall mean all of, the then outstanding \$1,305,000 “Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be made pursuant to a Master Lease Purchase Agreement and Equipment Schedules thereto made and entered into by and between the State of Mississippi, Represented by and Acting Through The State of Mississippi Department of Finance and Administration, as lessee and First Southwest Leasing Company, as lessor” executed and delivered hereunder.

*“Certificate Payment Fund”* shall mean the fund created by **Section 4.02** hereof.

*“Certificateowner”* or *“owner”* shall mean a Person in whose name a Certificate is registered in the Register.

*“Closing”* shall mean the date of the original execution and delivery of the Certificates and payment therefor by the initial purchaser thereof.

*“Closing Statement”* shall mean that statement required by **Section 3.09** hereof.

*“Code”* shall mean the Internal Revenue Code of 1986, as amended, and the regulations and revenue rulings and procedures issued pursuant thereto from time to time.

*“Dated Date”* shall mean the date as set forth in the Closing Statement.

*“Delivery Costs”* shall mean all items of expense directly or indirectly payable by or reimbursable to the Trustor relating to the financing of the Equipment under the Lease, including, but not limited to, initial or acceptance fees and expenses of the Trustee, the Paying Agent and the Registrar, the Trustor’s

fees and expenses, costs of legal and other professional services, costs of underwriting or placing the Certificates (including underwriting fees, placement agent fees or bond discount), costs of preparing the Operative Agreements and any supplements to any thereof and any other documents in connection with the authorization, execution and sale of the Certificates, recording and filing fees, fees and expenses of the Trustee, printing and engraving and other fees and costs in connection therewith.

*“Distribution Dates”* shall mean each April 15 and October 15, commencing April 15, 2020, for so long as the Certificates are Outstanding.

*“Distributions”* shall mean those amounts payable with respect to the Certificates on each Distribution Date representing the principal and interest components of the Lease Payments to be paid or prepaid by the Lessee pursuant to the Lease on each corresponding date that Lease Payments are due and those amounts, if any, payable with respect to the Certificates representing premium, if any, to be paid by the Lessee.

*“Eligible Investments”* shall mean and include any of the following securities or investments but only to the extent that they are eligible for investment with the Lessee’s moneys or proceeds of its borrowings under applicable State law:

- (a) any direct obligation issued by or guaranteed in full as to principal and interest by the United States of America, or in certificates of deposit issued by or through a qualified depository of the State of Mississippi as approved by the State Treasurer. Such investments shall mature or be redeemable by the holder on or prior to the date upon which such funds will be required for disbursement and bear interest at a rate per annum not less than a simple interest rate numerically equal to the average bank discount rate of United States Treasury bills of comparable maturity or the current rate of interest paid on certificates of deposit or on United States Treasury obligations of comparable maturities, whichever is the higher; or
- (b) time certificates of deposit or interest-bearing accounts with qualified state depositories. The rate of interest paid by the depositories shall be determined by rules and regulations adopted and promulgated by the State Treasurer which may include competitive bids. At the time of investment, the interest rate on such certificates of deposit under the provisions of this subparagraph shall be a rate not less than the Certificate of Participation equivalent yield on direct obligations of the United States Treasury with a similar length of maturity; or
- (c) direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States; or
- (d) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government of the United States, such as the Government National Mortgage Association; or United States governmental agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are guaranteed by any United States Government agency, United States Government instrumentality or United States Government sponsored enterprise contained in a list promulgated by the State Treasurer; however, at no time shall the funds invested in United States government agency, United States Government instrumentality or United States Government sponsored enterprise obligations enumerated in this subparagraph exceed fifty percent (50%) of all monies invested with maturities of thirty (30) days or more; or

- (e) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in subparagraphs (c) and (d) above. "Direct security repurchase agreement" means an agreement under which the State buys, holds for a specified time, and then sells back those securities and obligations enumerated in subparagraphs (c) and (d) above. "Reverse direct security repurchase agreement" means an agreement under which the State sells and after a specified time buys back any of the securities and obligations enumerated in subparagraphs (c) and (d) above. At least eighty percent (80%) of the total dollar amount on all repurchase agreements at any one (1) time shall be pursuant to contracts with qualified state depositories.

Direct obligations issued by the United States of America shall be deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the provisions of 15 USC Section 80(a)-1 et seq., provided that the portfolio of such investment company or investment trust is limited to direct obligations issued by the United States of America, United States Government agencies, United States Government instrumentalities or United States Government sponsored enterprises, and to repurchase agreements fully collateralized by direct obligations of the United States of America, United States Government agencies, United States Government instrumentalities or United States Government sponsored enterprises, and the investment company or investment trust takes delivery of such collateral for the repurchase agreement, either directly or through an authorized custodian. The State Treasurer and the Executive Director of the Department of Finance and Administration shall review and approve the investment companies and investment trusts in which funds invested under paragraph (d) of this section may be invested. The total dollar amount of funds invested in all open-end and closed-end management type investment companies and investment trusts at any one (1) time shall not exceed twenty percent (20%) of the total dollar amount of funds invested under paragraph (d) of this section.

Investments authorized by subparagraphs (c) and (d) above shall mature on such date or dates as determined by the State Treasurer in the exercise of prudent judgment to generate a favorable return to the State and will allow the monies to be available for use at such time as the monies will be needed for State purposes. However, the maturity of securities purchased as enumerated in subparagraphs (c) and (d) shall not exceed ten (10) years from date of purchase. Special funds shall be considered those funds created constitutionally, statutorily or administratively which are not considered general funds. All funds invested for a period of thirty (30) days or longer hereunder shall bear a rate no less than that numerically equal to the equivalent yield on direct obligations of the United States Treasury of comparable maturity.

Any interest-bearing deposits or certificates of deposit shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one (1) banking institution, the Federal Savings and Loan Insurance Corporation in any one (1) savings and loan association, or other deposit insurance corporation approved by the State Treasurer, unless the uninsured portion is collateralized by the pledge of securities in the manner provided by State law.

*"Equipment"* shall have the same meaning as when such term is used in the Lease.

*"Equipment Costs"* shall mean the aggregate purchase price for the Equipment payable to all vendors or sellers under the Lease, in no event to exceed \$1,277,532 to be funded with moneys on deposit in the Acquisition Fund.

*"Event of Default"* is defined in **Section 7.01** hereof.

*"FDIC"* shall mean the Federal Deposit Insurance Corporation or any successor agency.

*“Fiscal Year”* shall mean the period beginning July 1 of each year and ending on June 30 of the next year.

*“Funds”* shall mean the Proceeds Fund, Acquisition Fund, the Certificate Payment Fund, and the Rebate Fund, if any, and any accounts or subaccounts thereof.

*“Investment Instructions”* shall mean written Investment Instructions delivered to the Trustee and executed by an authorized officer of the Trustor on the date of the original execution and delivery of the Certificates pursuant to **Section 5.01** hereof, and such additional written investment instructions so executed and delivered from time to time.

*“Lease”* shall mean collectively, the Master Lease and the User Agreements.

*“Lease Default”* shall mean the occurrence and continuation of any of the events described in **Article VIII** of the Lease, after any applicable cure period and/or grace period.

*“Lease Payments”* shall mean the periodic payments to be made by or on behalf of the Lessee pursuant to the Lease which will be distributed from time to time as the Distributions to the owners of the Certificates pursuant to this Trust Agreement, and designated as “Series 2020A Aggregate Lease Payments” under the Lease.

*“Lessee”* shall mean the State of Mississippi, acting by and through the Mississippi Department of Finance and Administration, a sovereign state of the United States of America as defined in section 103(A) of the Code.

*“Lessor”* shall mean First Southwest Leasing Company, acting in its capacity as lessor under the Master Lease, and any successors or permitted assigns, including the Trustee to the extent provided in the Assignment.

*“Lien”* shall mean any interest in the Equipment securing an obligation owed to, or a claim by, a Person other than the owner of the Equipment, whether such interest is based on common law, statute or contract, and including but not limited to the security interest or lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes.

*“Master Lease”* shall mean that certain Series 2020A Master Lease Purchase Agreement and Series 2020A Equipment Schedules thereto, dated as of March 5, 2020, by and between the Lessee and the Lessor.

*“Maturity Date”* shall mean, with respect to each Certificate, the date on which the final Distribution including the Principal Amount and interest thereon is scheduled to be distributed as specified herein.

*“Moody’s”* shall mean Moody's Investors Service, Inc.

*“Net Proceeds”*, when used with respect to any proceeds from policies of insurance required by the Lease or any condemnation award paid with respect to the Equipment, shall mean the amount remaining after deducting all expenses (including attorneys’ fees) incurred in the collection of such proceeds or condemnation award from the gross proceeds thereof.

*“Notice by Mail”* or *“notice”* of any action or condition *“by Mail”* shall mean a written notice meeting the requirements of this Trust Agreement mailed by registered or certified mail to the owners of specified Certificates, at the addresses shown in the Register.

*“Operative Agreements”* shall mean the Lease, the User Agreements, the Assignment, the Certificates, and this Trust Agreement, and all other documents, certificates, writings, and reports delivered in connection therewith.

*“Outstanding”* or *“outstanding”* when used with reference to Certificates shall mean, as of the date of determination, all Certificates executed and delivered by the Trustee hereunder, except:

- (a) Certificates theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (b) Certificates with respect to which the necessary amount of Lease Payments shall have been or shall concurrently be deposited with the Trustee and be available for payment to a Certificateowner or for which provision for payment of the underlying Lease Payments shall have been made; provided, however, if such Certificates are being prepaid prior to the Maturity Date, the required notice of prepayment shall have been given or provisions satisfactory to the Trustee shall have been made therefor;
- (c) Certificates in exchange for or in lieu of which other Certificates shall have been delivered pursuant to the terms of **Article III** hereof; and
- (d) Certificates owned by the Lessee.

*“Participating User”* shall have the same meaning as that ascribed to such term in the Lease.

*“Paying Agent”* shall mean the Trustee, as the paying agent or place of payment for the Distributions with respect to the Certificates, and any successor designated pursuant to this Trust Agreement.

*“Person”* shall mean one or more individuals, estates, joint ventures, joint-stock companies, partnerships, corporations, trusts or unincorporated organizations, limited liability companies, and one or more governments or agencies or political subdivisions thereof.

*“Principal Amount”* shall mean with respect to any Certificate, the amount of the underlying Lease Payments representing principal and available to make a Distribution to the owner thereof as designated on the Register and on the face thereof.

*“Proceeds Fund”* shall mean the fund created pursuant to **Section 4.01** hereof.

*“Purchase Option Price”* shall have the same meaning as ascribed to that term in the Master Lease.

*“Rebate Fund”* shall mean the fund so designated which may be established by the Trustee pursuant to **Section 4.05** hereof, which Fund shall not be part of the Trust Estate.

*“Record Date”* shall mean with respect to each Distribution Date, fifteen days prior to such Distribution Date.

*“Register”* is defined in **Section 3.03** hereof.

*“Registrar”* shall mean the Trustee, acting as the registrar to keep the Register for the registration of the Certificates and for the registration of transfer and exchange of the Certificates, and any successor appointed by the Trustee.

“*Special Tax Counsel*” shall mean any attorney at law or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“*State*” shall mean the State of Mississippi.

“*Trust Agreement*” shall mean this Trust Agreement dated as of March 5, 2020, by and among the Trustor, the Trustee, and the Lessee, and any amendments and supplements hereto as herein provided.

“*Trust Estate*” shall have the meaning specified in **Section 2.01** hereof.

“*Trustee*” shall mean U.S. Bank National Association, acting for the benefit of the Certificateowners in its capacity as trustee under the Trust Agreement, and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee hereunder.

“*Trustor*” shall mean First Southwest Leasing Company in its capacity as trustor under the Trust Agreement, or any successor to the duties or functions of the Trustor.

“*User Agreements*” shall mean collectively those certain Participating User Agreements each dated as March 5, 2020, and made and entered into by and between Lessee and (i) Ellisville State School and (ii) Copiah-Lincoln Community College District, respectively, and each of the Series 2020A Equipment Schedules related to the foregoing described agreements.

“*Vendor*” shall mean any manufacturer of the Equipment as well as the agents or dealers of the manufacturer from whom the Equipment was originally acquired or is being acquired.

## ARTICLE II THE TRUST ESTATE; ORIGINAL EXECUTION OF THE CERTIFICATES

*Section 2.01. Trust Estate.* Pursuant to the Assignment, the Trustor has irrevocably transferred by outright and absolute conveyance, without recourse, to the Trustee all of the Trustor’s rights, title and interest in, to and under the Lease, the Equipment and certain other rights and interests to be held in trust for the benefit of the owners from time to time of the Certificates; provided, however, the said conveyance does not include the obligations and duties of the Trustor, as lessor under the Lease. The Trustee shall be entitled to and shall collect and receive all Lease Payments, payments of the Purchase Option Price (if paid), insurance proceeds, awards, condemnation awards, and other payments, tenders and security now or hereafter payable by the Lessee. The Trustee shall also be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Lessor and all of the obligations of the Lessee under the Lease. Any moneys, securities and other properties held by the Trustee hereunder (with the exception of funds on deposit in the Rebate Fund, if any), together with the security interest in the Equipment assigned from the Trustor to the Trustee pursuant to the Assignment, shall be held in trust for the benefit of the owners from time to time of the Certificates. The right, title and interest in the Lease, the Equipment and other rights and interests assigned and transferred to the Trustee pursuant to the Assignment and the moneys, securities and other property held by the Trustee hereunder are herein referred to collectively as the “Trust Estate.”

*Section 2.02. Original Execution and Delivery of the Certificates.* In exchange for such assignment and transfer of the Trust Estate by the Trustor pursuant to the Assignment, the Trustee shall cause to be

executed and delivered to or upon the order of the initial purchaser of the Certificates representing 100% of the ownership interest in the Certificates.

### ARTICLE III THE CERTIFICATES

#### *Section 3.01. Terms, Execution of Certificates and Amount Issued; Form.*

(a) In order to provide funds to finance the Equipment Costs for the Equipment and to provide moneys to pay the Delivery Costs, the Trustee is hereby authorized to prepare, execute and deliver the Certificates in the aggregate principal amount of \$1,305,000 which Certificates are hereby designated “Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program for School Districts Series 2020A) Evidencing Proportionate Interests in Lease Payments to be made pursuant to a Master Lease Purchase Agreement and Equipment Schedules thereto made and entered into by and between the State of Mississippi, Represented by and Acting Through The State of Mississippi Department of Finance and Administration, as lessee and First Southwest Leasing Company, as lessor”.

(b) The Certificates shall be signed by the manual signature of an authorized officer of the Trustee. The execution by the Trustee of any Certificate delivered hereunder shall not be construed as a representation or warranty by the Trustee as to the validity or security of this Trust Agreement or of such Certificate, and the Trustee shall in no respect be liable or answerable for the use made of such Certificate or the proceeds thereof. Any Certificate shall be deemed to have been duly executed by the Trustee if signed by a duly authorized officer of the Trustee, but it shall not be necessary that the same officer sign all of the Certificates delivered hereunder. In case any official of the Trustee whose signature shall appear on the Certificates shall cease to be such official before delivery of the Certificates, such signature shall nevertheless be valid and sufficient for all purposes, the same as if he or she had remained in office until delivery.

(c) No Certificate shall be valid or obligatory for any purpose or entitled to any security or benefit hereunder unless and until executed in the manner prescribed by **Section 3.01(b)** hereof, and such execution of any Certificate shall be conclusive evidence that such Certificate has been properly executed and delivered hereunder and is entitled to the benefits of this Trust Agreement.

(d) The aggregate Principal Amount of the Certificates that may be executed and delivered under this Trust Agreement shall not exceed \$1,305,000, except as provided in **Section 3.04** hereof, and no Certificate may be executed and delivered hereunder except in accordance with this **Article III**. The Certificates shall be numbered consecutively from R-1 upward and shall be issued in minimum denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof.

(e) The portion of the Distributions constituting the Principal Amount represented by each Certificate shall bear interest from the Distribution Date next preceding the date of registration thereof, unless such Certificate is registered as of a Distribution Date, in which event the portion of the Distributions representing the Principal Amount thereof shall bear interest from the date of the Certificate’s registration, or unless such Certificate is registered prior to the first Distribution Date, in which event the portion of the Distributions representing the Principal Amount thereof shall bear interest from the Dated Date of the Certificate, or unless, as shown by the records of the Trustee, the portion of the Distributions representing interest is in default, in which event the portion of the Distributions representing the Principal Amount thereof shall bear interest from the date to which such interest has been paid in full, or unless no portion of the Distributions representing interest has been paid, in which event the portion of the Distributions representing the Principal Amount thereof shall bear interest from the Dated Date of the Certificate. The Trustee shall insert the date of registration of each Certificate in the place provided for such purpose on each Certificate.

(f) Amounts representing the aggregate Principal Amount of each Distribution are to be paid on the dates and in the amounts shown below. Each Distribution shall contain an interest component which shall be calculated pursuant to subsection (e) above, and shall be computed by multiplying the aggregate Principal Amount of the Certificates Outstanding of each maturity by the respective interest rates set forth below (calculated on the basis of a 30-day month and a 360 day year):

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
April 15, 2029	\$1,305,000	1.94%

To the extent that the Certificates have been previously prepaid as a result of an optional prepayment, an amount equal to the Principal Amount represented by such previously prepaid Certificates will be credited against the remaining Principal Amount of Outstanding Certificates in such a manner that the remaining Lease Payments under the Lease will be sufficient to pay the remaining Distributions on the Certificates.

(g) The Certificates shall be in the form provided in Appendix “A” hereto.

*Section 3.02: Payment of the Certificates.* (a) The final Distribution with respect to any Certificate shall be payable at a corporate trust agency office of the Trustee in Brandon, Mississippi, upon presentation and surrender of Certificates on or after the respective Maturity Date, or any earlier date fixed for the prepayment thereof.

(b) All Distributions (other than the final Distribution) shall be paid to the Person who is the Owner thereof as of the close of business on the Record Date and shall be paid by check or draft drawn on the Trustee and mailed on the Distribution Date to the Owner thereof at the address on the Register notwithstanding the cancellation of any such Certificate upon any exchange or transfer thereof subsequent to the Record Date and prior to such Distribution Date; provided, however, Distributions may be made to any owner of \$500,000 or more in Principal Amount represented by Certificates as of the close of business of the Trustee on the Record Date for a particular Distribution Date by wire transfer to such owner on such Distribution Date upon written notice from such owner containing the wire transfer address to which such owner wishes to have such wire directed which written notice is received not later than the Record Date for such Distribution Date.

(c) The Distributions made with respect to the Certificates shall be paid in lawful money of the United States of America.

*Section 3.03. The Register.* The Trustee shall keep or cause to be kept at its principal corporate trust office a register for the registration, exchange and transfer of Certificates (herein called the “Register”). The names and addresses of the owners of the Certificates, the transfers and exchanges of the Certificates and the names and addresses of the transferees of all Certificates shall be registered in the Register.

*Section 3.04. Restrictions on Registration and Transfer; Transfers and Exchanges of Certificates; Lost or Mutilated Certificates.*

(a) **The Certificates have not been registered under the Securities Act of 1933, as amended (the “Securities Act”) or registered under the securities laws of any state. In addition, the Trust will not be registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Neither the Certificates nor any interest therein may be transferred except in compliance with the Securities Act and applicable state securities laws. Neither the Trust, the Trustor, the Trustee nor the Lessee is obligated to register or qualify the Certificates or any interest therein under the**

**Securities Act or any other securities law. No purchase or subsequent transfer of any Certificate or any interest therein may be made to any Person (i) who is not either (a) an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act, or (b) a “qualified institutional buyer” within the meaning of Rule 144A promulgated under the Securities Act, (ii) who is acting as a broker or other intermediary, (iii) who is not purchasing the Certificate or interest therein as an investment for such Person’s own account or (iv) in a manner that results in such purchaser or transferee owning less than \$100,000 aggregate principal amount of Certificates, without a present view to resale or other distribution to the public. Although an Owner of a Certificate may not intend at the time of purchase to dispose of all or any part of its Certificates, it is hereby acknowledged and agreed that an Owner’s right to sell and transfer its Certificate shall at all times be within its control, subject to the limitation that the Owner of a Certificate may not sell and transfer any portion of its Certificate unless there is full compliance with the provisions of this Section 3.04 and the purchaser shall execute and deliver, at the time of purchase or transfer, an Investor Letter in form and substance substantially similar to *Appendix B* attached hereto. The Trustee shall place an appropriate legend on each Certificate so restricting the transfer of the Certificates.**

(b) The Owner of a Certificate may transfer such Certificate only upon the surrender thereof for cancellation at a corporate trust office of the Trustee, except as provided in **Section 3.04(e)** hereof. Thereupon, the Trustee shall execute in the name of the transferee a new Certificate or Certificates representing the same Final Distribution Date, in authorized denominations, relating to the principal component of Lease Payments represented by the Certificate so surrendered with the interest component accruing at the same rate, and the Trustee shall deliver such new Certificate or Certificates to such transferee.

(c) All Certificates presented or surrendered for transfer shall be accompanied by a written instrument or instruments of assignment or transfer, in form satisfactory to the Trustee, duly executed by the owner or by such owner’s attorney duly authorized in writing. The Trustee shall not be required to make a transfer or an exchange of any Certificate during (i) the period from the Record Date for a Distribution Date to such Distribution Date, or (ii) the period after the mailing of notice calling such Certificate for prepayment has been given as herein provided, or (iii) the period of fifteen days next preceding the giving of such notice of prepayment.

(d) No notarial seal shall be necessary for the transfer or exchange of any Certificate pursuant to this Section, and the owner of any Certificate delivered as provided in this Section shall be entitled to any and all rights and privileges granted under this Trust Agreement to an owner of a Certificate.

(e) In case any Certificate shall become mutilated or be destroyed, lost or stolen, the Trustee, upon the written request of the owner thereof, shall execute and deliver a new Certificate in exchange and substitution for the mutilated Certificate, or in lieu of and in substitution for the Certificate so destroyed, lost or stolen. The applicant for a substitute Certificate shall furnish to the Trustee such security and/or indemnity as may be required by the Trustee to save the Trustee harmless from all risks, and the applicant shall also furnish to the Trustee evidence to the Trustee’s satisfaction of the mutilation, destruction, loss or theft of the applicant’s Certificate and of the ownership thereof. In case the Principal Amount represented by any Certificate has become payable or is about to become payable shall become mutilated or be destroyed, lost or stolen, the Trustee may, instead of issuing a substitute Certificate, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Certificate), if the applicant for such payment shall furnish to the Trustee such security and/or indemnity as the Trustee may require to save it harmless, and shall evidence to the satisfaction of the Trustee the mutilation, destruction, loss or theft of such Certificate and the ownership thereof. The Certificateowner shall pay any applicable fees and expenses of the Trustee and shall bear the cost of any required indemnity or surety bond.

*Section 3.05. The New Certificates*

(a) Each new Certificate (herein, in this Section called a “*New Certificate*”) executed and delivered pursuant to Section 3.04(a), (b) or (e) in exchange for or in substitution or in lieu of an Outstanding Certificate (herein called an “*Old Certificate*”) shall be dated as provided in Section 3.01(e) hereof.

(b) Upon the execution and delivery of a New Certificate pursuant to Section 3.04(a), (b) or (e) hereof, the Trustee may require the payment of a sum to reimburse it for, or to provide it with funds for, the payment of any tax or other governmental charge or any other charges and expenses connected therewith that are paid or payable by the Trustee, and the Trustee may require the Certificateowner requesting such transfer or exchange to pay such transfer fee as the Trustee at the time customarily charges for such service.

(c) All New Certificates executed and delivered pursuant to Section 3.04(a), (b) or (e) hereof in exchange for or in substitution or in lieu of Old Certificates shall be valid Certificates evidencing the same interests as the Old Certificates and shall be entitled to the benefits and security of this Trust Agreement to the same extent as the Old Certificates.

*Section 3.06. Cancellation of Certificates.* All Certificates surrendered for the purpose of payment, prepayment, transfer or exchange shall be delivered to the Trustee for cancellation or, if surrendered to the Trustee, shall be canceled by it. No Certificates shall be executed and delivered in lieu thereof except as expressly required or permitted by any of the provisions of this Trust Agreement. All such canceled Certificates shall be burned or otherwise destroyed by the Trustee.

*Section 3.07. Trustee as Paying Agent and Registrar.* The Trustee is hereby appointed the paying agent and registrar for the payment, registration, transfer and exchange of Certificates. Subject to the provisions of **Section 3.02** hereof, Certificates may be presented for payment, and notices or demands with respect to the Certificates or this Trust Agreement may be served or made, at a corporate trust office of the Trustee in Brandon, Mississippi.

*Section 3.08. Ownership.* The Person in whose name any Certificate shall be registered on the Register shall be deemed and treated as the owner thereof for all purposes of this Trust Agreement, and the Trustee shall not be affected by any notice to the contrary. Payment of or on account of the Distributions with respect to such Certificate shall be made only to or upon the order in writing of such Owner or such owner’s legal representative. All such payments shall be valid and effectual to satisfy and discharge such Certificate to the extent of the sum or sums paid. For the purpose of any request, direction or consent hereunder, the Trustee may deem and treat the Owner of any Certificate as the owner and holder thereof without production of such Certificate.

*Section 3.09. Prerequisites to Execution of Certificates; Application of Proceeds of Certificates.*

(a) The Trustee is hereby authorized to execute and deliver the Certificates upon receipt of and in accordance with a Closing Statement, but only upon receipt of (a) the price paid by the Underwriter of such Certificates as set forth in such Closing Statement and (b) each of the following:

- (1) an executed copy of the Operative Agreements; and
- (2) an opinion of Special Tax Counsel to the effect that the interest component of the Lease Payments that is received by the Owners of the Certificates is not includible in the gross income of the Certificateowners for federal and State income tax purposes, assuming continuing compliance by the Lessee with the obligations set forth in the Lease and any certificate executed by the Lessee with respect to tax

covenants and compliance, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations.

(b) The proceeds of sale of the Certificates shall be disbursed as required by **Section 4.01** hereof.

#### **ARTICLE IV FUNDS**

##### *Section 4.01. The Proceeds Fund; Disposition of Proceeds of Sale of Certificates.*

(a) *Creation of the Proceeds Fund.* There is hereby created and ordered established with the Trustee a trust fund to be designated the “State of Mississippi Master Lease Program Series 2020A Proceeds Fund (the “*Proceeds Fund*”). All proceeds received by the Trustee from the sale of the Certificates shall be deposited to the Proceeds Fund.

(b) *Disbursements from the Proceeds Fund.* At Closing, the Trustor will prepare and deliver a Closing Statement to the Trustee. The Closing Statement shall show the following: (i) the Dated Date of the Certificates, (ii) the amount of the proceeds of the sale of the Certificates, (iii) the detailed amounts to be disbursed in payment of the Equipment Costs and the Delivery Costs; and (iv) the amounts to be deposited to the various Funds established hereunder. The Trustee is hereby directed, and agrees, upon receipt of the Closing Statement to withdraw funds deposited to the Proceeds Fund and to disburse such requested funds according to such Closing Statement for the Delivery Costs without further direction from the Lessee or the Trustor.

##### *Section 4.02. The Certificate Payment Fund.*

(a) *Creation of the Certificate Payment Fund.* There is hereby created and ordered established with the Trustee an irrevocable trust fund to be designated “State of Mississippi Master Lease Program Series 2020A Certificate Payment Fund (the “*Certificate Payment Fund*”) that shall be used to pay and prepay the Distributions with respect to the Certificates as herein provided.

(b) *Custody of the Certificate Payment Fund.* Except as otherwise provided in **Section 4.06** hereof, neither the Trustor nor the Lessee shall have any legal or equitable interest in any of the moneys in the Certificate Payment Fund and such moneys shall only be used for payment or prepayment of Distributions with respect to the Certificates as provided herein. The Trustee shall have the sole right of withdrawal with respect to, and neither the Trustor nor the Lessee shall have any control over, any moneys in the Certificate Payment Fund, except as otherwise provided herein.

The Certificate Payment Fund shall be in the custody and name of the Trustee. The Trustor hereby irrevocably authorizes and directs the Trustee to withdraw sufficient funds from the Certificate Payment Fund, to the extent that sufficient funds are on deposit therein, on each Distribution Date to pay the Distributions with respect to the Certificates as the same become due and payable, which authorization and direction the Trustee hereby accepts. The Trustor hereby further irrevocably authorizes and directs the Trustee to withdraw sufficient funds from the Certificate Payment Fund, to the extent that sufficient funds are on deposit therein, on each date on which Certificates are to be prepaid in accordance with the terms of this Trust Agreement, which authorization and direction the Trustee hereby accepts.

(c) *Payments into Certificate Payment Fund.* There shall be deposited into the Certificate Payment Fund, as and when received, the following:

- (i) the Lease Payments and interest earned thereon, if any, and payments of the Purchase Option Price; and
- (ii) all other moneys received by the Trustee under and pursuant to any of the provisions of the Lease or otherwise which are required or which are accompanied by directions that such moneys are to be paid into the Certificate Payment Fund.

(d) *Use of Moneys in Certificate Payment Fund.* Moneys in the Certificate Payment Fund shall be used solely for the payment and prepayment of the Distributions with respect to the Certificates.

(e) *Repayment to the Lessee from Certificate Payment Fund.* Any amounts remaining in the Certificate Payment Fund after payment in full of the Distributions payable with respect to the Certificates and after payment of all other amounts required to be paid hereunder or under the Lease shall be paid immediately to the Lessee.

#### *Section 4.03. The Acquisition Fund*

(a) *Creation of the Acquisition Fund.* There is hereby created and ordered established with the Trustee a trust fund to be designated “State of Mississippi Master Lease Program for School Districts Series 2020A Acquisition Fund (the “*Acquisition Fund*”) that shall be expended in accordance with the provisions of this **Section 4.03**.

(b) *Deposits into the Acquisition Fund.* As directed in the Closing Statement, the Trustee shall deposit into the Acquisition Fund the amount specified for such deposit in the Closing Statement (the “*Acquisition Fund Deposit*”). The Trustee shall not have any obligation to deposit any moneys to the Acquisition Fund in excess of the amount of the Acquisition Fund Deposit, except (i) investment earnings to the extent required by subsection (c) below and (ii) any amounts made available therefor by the Lessee or a Participating User.

(c) *Investment of the Acquisition Fund.* The Trustee is directed to invest the Acquisition Fund pursuant to the Investment Instructions. Interest and income received upon investment of the Acquisition Fund shall be deposited to the Acquisition Fund until a determination is made by the Lessee that such excess investment earnings will not be required to make payments of arbitrage rebate to the federal government. After a determination has been made that any excess investment earnings shall not be required to pay arbitrage rebate, the excess shall be applied as a credit to the Lease Payments next due pursuant to the Master Lease Agreement, and the Participating Users shall be credited with amounts so applied in such manner as the Lessee shall determine to be appropriate.

(d) *Disbursements from the Acquisition Fund.* The Trustee shall make disbursements from the Acquisition Fund, from time to time, to pay Equipment Costs upon receipt of either (1) the Closing Statement or (2) an Acceptance Certificate in the form attached to each User Agreement.

So long as no Event of Default occurs, moneys on deposit in the Acquisition Fund shall be subject to the beneficial interest of the Lessee as provided herein and in the Lease, and the Trustee shall be fully protected in relying on and in acting upon the Closing Statement and Acceptance Certificate and the directions of the Lessee, and shall not be required to verify or take any other further action respecting the application of the disbursement made therefor. Additionally, and for so long as no Event of Default shall occur and be continuing, the Trustee is hereby authorized and directed to make payments as requested by the Lessee from the Acquisition Fund to pay the Equipment Costs, to make each disbursement otherwise required by the applicable provisions of the Lease and to issue its checks therefor, upon receipt of all documents required in this Trust Agreement.

If an Event of Default or an occurrence of nonappropriation shall occur prior to the expenditure of all moneys deposited in the Acquisition Fund, the Trustee shall immediately transfer the amount then on deposit in the Acquisition Fund to the Certificate Payment Fund to be used for the payment of the Certificates in accordance with **Section 7.03** hereof.

No amount shall be withdrawn from or paid out of the Acquisition Fund except as provided herein.

*Section 4.04. Reserved*

*Section 4.05. The Rebate Fund*

(a) *Creation of the Rebate Fund.* Upon receipt of written notice from an Authorized Representative of the Lessee or from the Trustor, the Trustee shall establish a Rebate Fund for the Certificates and shall make deposits to and disbursements from the Rebate Fund in accordance with such written instructions. The Trustee shall invest the Rebate Fund pursuant to said written instructions and shall deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

(b) The written instructions delivered pursuant to this Section may at the request of the Trustee be accompanied by an opinion of Special Tax Counsel addressed to the Trustee to the effect that the use of said written instructions will not cause the interest on the Certificates to become subject to federal income taxation.

(c) The Trustee shall have no responsibility related to the calculation of or payment of (except from moneys deposited in the Rebate Fund for the Certificates as provided in this Section) any arbitrage rebate owed to the United States of America under the Code.

*Section 4.06. Moneys to be Held in Trust; Nonpresentment of Certificates.*

(a) All moneys required to be deposited with or paid to the Trustee for account of any fund or account referred to in any provision of this Trust Agreement (with the exception of the Rebate Fund, if any) shall be held by the Trustee in trust, and shall, while held by the Trustee, constitute part of the Trust Estate for the Certificates and be subject to the provisions hereof.

(b) If any Certificate is not presented for payment when Distributions are to be made pursuant thereto and funds sufficient to pay such Distributions with respect to such Certificate shall have been made available to the Trustee for the benefit of the owners thereof, the Trustee shall hold such funds uninvested without liability for interest, for the benefit of the owners of such Certificate, who shall be restricted exclusively to such funds for any claim of whatever nature on or with respect to such Certificate. Any moneys deposited with and held by the Trustee for the benefit of such claimants, if any, for five years after the date upon which so deposited shall be repaid to the Lessee upon its written demand, and thereupon and thereafter no such claimant shall have any rights to or with respect to such moneys against the Trustee.

**ARTICLE V**  
**INVESTMENT OF FUNDS**

*Section 5.01. Investment of Funds*

(a) The Trustee shall invest moneys held in the Funds established hereunder only in Eligible Investments and shall make investments pursuant to Investment Instructions. All Eligible Investments may be made through the investment department of the Trustee.

(b) All investments made pursuant to this Section shall mature or be subject to redemption at not less than the principal amount thereof or the amortized cost of acquisition, whichever is lower, and all deposits in time accounts shall be subject to withdrawal without penalty not later than such dates and in such amounts required to make Distributions with respect to the Certificates on the Distribution Dates.

(c) The interest and income received upon such investments and any interest paid by the Trustee or any other depository of any Fund established hereunder, and any profit (net of losses) resulting from the sale of securities, shall be added or charged to such Fund unless otherwise specifically provided herein.

*Section 5.02. Valuation of Funds.* In computing the assets of any Fund or account, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued, at least annually, at their amortized cost, except for United States Treasury Obligations - State and Local Government Series, which shall be valued at their principal amount.

## **ARTICLE VI**

### **PREPAYMENT WITH RESPECT TO CERTIFICATES; DEFEASANCE**

*Section 6.01. Optional Prepayment.* The Certificates are subject to redemption prior to its Maturity Date, in whole or in part, and if in part, by lot based on principal amount being prepaid pursuant to the Lease, commencing April 15, 2023, and on each Distribution Date thereafter, in the event the Lessee elects to exercise its prepayment option by depositing with the Trustee an amount not less than \$50,000, or in the event the Lessee elects to exercise its option to purchase all or a portion of the Equipment and pays the Lease Payment and Purchase Option Price required in connection therewith.

In the event of a partial prepayment hereunder, such partial prepayment will be made in such a manner that the remaining Lease Payments under the Lease will be sufficient to pay the remaining Distributions on the Certificates. The Trustee shall be entitled to seek and rely on the advice of the Trustor or such other person as it deems appropriate as to the Principal Amount represented by Certificates to be called for prepayment, based on the amount being prepaid under the Lease.

*Section 6.02. Extraordinary Redemption.* (a) The Certificates are subject to extraordinary redemption prior to its Maturity Date, in whole or in part, and if in part, by lot within each maturity based on Principal Amount being prepaid, on any Distribution Date, in the event the Lessee determines that all or any portion of the funds then remaining on deposit in the Acquisition Fund shall not thereafter be utilized to acquire Equipment subject to a User Agreement and related Equipment Schedule, and directs the Trustee to apply such funds to the reduction of the Principal Amount of its future Lease Payments.

(b) The Certificates are also subject to extraordinary redemption prior to its Maturity Date, in whole or in part, and if in part, by lot based on Principal Amount being prepaid, on any Distribution Date in the event that all or substantially all of the Equipment subject to a User Agreement and Equipment Schedule is lost or damaged, and the Lessee elects not to repair or replace such lost or damaged Equipment but instead elects to exercise its option to purchase under the Lease as of any Distribution Date and pays the Lease Payment and Purchase Option Price required in connection therewith.

#### *Section 6.03. Mandatory Sinking Fund Redemption*

The Certificates are subject to mandatory redemption prior to maturity on April 15 and October 15 in each of the years and respective principal amounts (subject to reduction as hereinafter provided) set forth below at a redemption price of par plus accrued interest to the date of redemption, as follows:

<u>Distribution Date</u>	<u>Sinking Fund Installment</u>
April 15, 2020	\$140,000
October 15, 2020	135,000
April 15, 2021	140,000
October 15, 2021	135,000
April 15, 2022	140,000
October 15, 2022	140,000
April 15, 2023	145,000
October 15, 2023	140,000
April 15, 2024	95,000
October 15, 2024	95,000 <sup>(1)</sup>

<sup>(1)</sup>Maturity Date.

Certificates to be redeemed by mandatory redemption shall be selected by lot.

The principal amount of the Certificates required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced by the principal amount of the Certificates which shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

*Section 6.04. Notice of Prepayment.*

(a) When a prepayment is to be made with respect to Certificates pursuant to this Section, the Trustee shall cause a notice of prepayment to be mailed to the Certificateowners immediately upon being notified of such prepayment by the Lessee, but not more than thirty (30) days prior to the date fixed for prepayment.

(b) Such notice shall state the date fixed for prepayment, that on such date the Certificates with respect to which a prepayment is to be made will be due and become payable at a corporate trust office of the Trustee and from and after such date interest distributable with respect to such Certificates shall cease to accrue.

(c) The owners of any Certificates with respect to which a prepayment is to be made may file written waivers of notice with the Trustee, and if so waived, such Certificates may be prepaid and all rights and liabilities of said Certificateowners shall mature and accrue on the date set for such prepayment, without the requirement of written notice.

(d) Each notice of prepayment shall be deposited by the Trustee in the United States mail with first class postage prepaid and addressed to the owners of the Certificates with respect to which a prepayment is being made at their respective addresses appearing upon the Register.

(e) Notwithstanding the foregoing, any defect in any notice given pursuant to this Section shall not affect the validity of the proceedings for the proposed prepayment.

(f) Each notice required by this Section shall state: (1) the Maturity Date and the interest rate represented by Distributions with respect to each Certificate with respect to which a prepayment is being made; (2) the prepayment date; (3) the prepayment price; (4) the date on which such notice is mailed; (5) that on such prepayment date there shall become due and payable upon each Certificate with respect to which a prepayment is to be made the prepayment price thereof, together with interest with respect thereto to the prepayment date, and that from and after such date interest with respect thereto shall cease to accrue

and be payable; (6) that the Certificates with respect to which prepayments are to be made are to be surrendered for payment of the prepayment price at the corporate trust office of the Trustee; and (7) the name and telephone number of a person designated by the Trustee to be responsible for such prepayment. If at the time of mailing of notice of any prepayment by reason of the Lessee's exercise of its prepayment option pursuant to the Master Lease, the Lessee shall not have deposited with the Trustee moneys sufficient to prepay all the Certificates with respect to which a prepayment is to be made, such notice shall state that it is conditional, subject to the deposit of funds with the Trustee not later than the prepayment date, and such notice shall be of no effect unless such moneys are so deposited.

*Section 6.05. Payment of Prepayment Price.* Whenever a prepayment is to be made with respect to the Certificates, all prepayment costs, including the amounts necessary to pay all costs of required mailing, any other costs incidental to the prepayment and to pay the Principal Amount represented thereby, premium, if any, and all interest relating thereto, accrued and to accrue to the date fixed for prepayment (or any earlier date to which such interest relating thereto shall be paid), shall be set aside from funds provided for such purpose as provided herein and held in separate trust hereunder by the Trustee exclusively for such purposes. Notice having been given in the manner hereinbefore provided for optional prepayment, or written waivers of notice having been filed with the Trustee prior to the date set for prepayment, the Certificates with respect to which a prepayment is to be made shall become due and payable on the prepayment date so designated and interest distributable with respect to such Certificates shall cease to accrue from the prepayment date whether or not the Certificates shall be presented for payment. The final Distribution (representing principal and accrued interest) of all Certificates with respect to which a prepayment is to be made shall be paid by the Trustee upon presentation and surrender thereof to the extent of moneys available for the payment thereof in the Certificate Payment Fund.

*Section 6.06. Defeasance.* In the event that the Lessee elects to prepay all or a portion of its obligations under the Lease and pays or causes to be paid the Purchase Option Price corresponding to the principal of, and interest due and payable, and thereafter to become due and payable, on, all or a portion of the Outstanding Certificates, and if the Lessee pays or causes to be paid to the Trustee all other sums due and to become due to it according to the provisions of the Lease, including fees and expenses, then this Trust Agreement and the lien, rights and interest created hereby in the Trust Estate and otherwise shall cease, determine and become null and void, whereupon, the Trustee shall cancel and discharge this Trust Agreement as to the portion of the Lease Payments so defeased and release, assign and deliver to the Lessee any and all of the estate, right, title and interest in and to all rights assigned or pledged to the Trustee or otherwise subject to this Trust Agreement, except moneys or securities held by the Trustee for the payment of the principal of and interest on the Certificates in accordance herewith.

Any Certificate will be deemed to be paid within the meaning of this Trust Agreement and for all purposes of this Trust Agreement when payment of the principal of such Certificate plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon prepayment as provided herein) either (i) has been made or caused to be made in accordance with the terms hereof or (ii) has been provided for by irrevocably depositing with the Trustee in trust and set aside exclusively for such payment, (A) moneys sufficient to make such payment, and/or (B) noncallable government obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment; provided, however, that no deposit pursuant to the preceding clause (ii) will be deemed a payment of the Certificates to be prepaid prior to maturity until notice of such prepayment shall have been given in accordance with this Trust Agreement or the Trustee shall have been given irrevocable instructions to give notice of such prepayment in accordance with this Trust Agreement.

**ARTICLE VII**  
**EVENTS OF DEFAULT AND REMEDIES**

*Section 7.01. Events of Default Defined.* The occurrence of any of the following events shall constitute an “Event of Default” under this Trust Agreement:

- (a) Default in the payment of a Distribution of the amounts represented by the Principal Amount, or premium, if any, with respect to any Certificate, when the same shall become due and payable, whether at the Maturity Date thereof, upon prepayment or otherwise; or
- (b) Default in the payment of a Distribution of any interest with respect to any Certificate when the same shall become due and payable; or
- (c) The occurrence of any Lease Default.

*Section 7.02. Acceleration of Maturities* If (a) the term of the Lease or any User Agreement is terminated pursuant to its terms due to the unavailability of lawfully appropriated funds sufficient to pay the Lease Payments when due during the next ensuing Fiscal Year, or (b) if the Lease shall be terminated or all or a part of the Lease Payments then due and coming due, shall be declared to be immediately due and payable by the Trustee (acting on the advice of counsel, at the direction of the Certificateowners, or otherwise) following the occurrence of an Event of Default, then the Trustee, by giving not less than fifteen (15) nor more than thirty (30) days’ written notice in the manner set forth in **Section 6.04** for giving notice of redemption, shall immediately accelerate the maturity or all or a pro rata portion of each Maturity Date of the Certificates to the date of the acceleration; provided, however, that if there are any User Agreements that have not terminated or are not in default, then there shall be no cross default of the User Agreements and the Trustee shall only give notice for redemption of a pro rata portion of each Certificates, based on the Principal Amount payable from payments made pursuant to the User Agreement(s) so terminated or defaulted. Similarly, if the Lessee or the Participating User is a party to more than one User Agreement, default under one such User Agreement shall not in and of itself cause a default under any other User Agreement.

*Section 7.03. Disposition of Assets and Funds*

- (a) Upon the occurrence and continuance of any Event of Default hereunder, the Trustee may, and upon request of the Certificateowners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates Outstanding shall, upon receipt by the Trustee of satisfactory security, indemnity and advice of counsel to the Trustee, exercise any and all rights and remedies available to the Lessor under the Lease; provided, however, that the Trustee shall not re-lease the Equipment or any portion thereof to a different lessee without the prior consent of the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of the Certificates. The proceeds of any disposition of the Equipment, less all costs incurred by the Trustee in relation thereto, shall be deposited in the Certificate Payment Fund.
- (b) If the maturities of all or any portion of the Principal Amount of the Certificates have been accelerated pursuant to **Section 7.02** hereof, the Trustee shall, upon giving notice of such acceleration, transfer all moneys held in the funds and accounts established hereunder (other than the Rebate Fund, if any) to the Certificate Payment Fund.
- (c) As of the date established for the acceleration of the maturities of the Certificates pursuant to **Section 7.02** hereof, and periodically (but at least semi-annually) thereafter, the Trustee shall apply all moneys on deposit in the Certificate Payment Fund to pay the following items in the following order of priority, after payment of all proper fees, expenses, liabilities and advances, including legal expenses and attorneys’ fees, incurred or made hereunder by the Trustee or the owner or owners of the Certificates, and

of all amounts advanced by the Trustee to protect the Equipment or any of its and the Certificateowners' rights with respect thereto:

*First*, to the Rebate Fund, if any, in an amount equal to the amount set forth in the written instructions of nationally recognized bond counsel or certified public accountants nationally recognized as experts in the calculation of arbitrage rebate in connection with which the Rebate Fund was established;

*Second*, distributed to the Certificateowners entitled thereto of all installments of the interest component of Distributions then payable with respect to the Certificates, in the order of the payment date of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

*Third*, to the payment to the Persons entitled thereto of the unpaid Principal Amount and premium, if any, with respect to all Certificates then Outstanding which shall have become due (other than Certificates called for prepayment for the payment of which moneys are held pursuant to the provisions of this Trust Agreement), in the order of their Distribution Dates, with interest on the unpaid Principal Amount at the rates specified therein from the respective dates upon which they become due, and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, together with such interest, then first to the payment of such interest ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the Principal Amount due on such date, to the Persons entitled thereto, without any discrimination or privilege; and

*Finally*, to the extent permitted by law, to the payment to the Persons entitled thereto of the unpaid interest on overdue installments of interest ratably, according to the amounts of such interest due on such date, without any discrimination or privilege.

*Section 7.04. Remedies Not Exclusive.* The Trustee shall be entitled to enforce payments and performance of any obligations hereunder or under the Lease and to exercise all rights and powers of the Trustee under this Trust Agreement or of the Lessor under the Lease or other agreement or any laws now or hereafter in force. No remedy herein conferred upon or reserved to the Trustee or the Certificateowners is intended to be exclusive of any other remedy herein or by law provided or permitted, but each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by this Trust Agreement or the Lease or to which the Trustor or the Trustee may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Trustee, and the Trustee may pursue inconsistent remedies.

Whenever moneys are to be applied pursuant to the provisions of this **Section 7.04**, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date (which shall be a Distribution Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the Principal Amount represented by Certificates to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the owner of any Certificate until such Certificate shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

*Section 7.05. Remedies Vested in the Trustee.* All rights of action (including the right to file proof of claims) under this Trust Agreement or with respect to any of the Certificates may be enforced by the Trustee without the possession of any of the Certificates or the production thereof in any trial or other proceeding relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any owners of the Certificates and any recovery of judgment shall be for the equal and ratable benefit (subject to the provisions of **Section 7.04** hereof) of the owners of the then Outstanding Certificates.

*Section 7.06. Termination of Proceedings.* In case the Trustee shall have proceeded to enforce any right under this Trust Agreement, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Trustee, the Lessee, and the Certificateowners shall be restored to their former positions and rights hereunder respectively with regard to the Trust Estate, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

*Section 7.07. Waivers of Events of Default.* The Trustee may in its discretion waive any Event of Default hereunder and its consequences, and shall do so upon the written request of the owners of at least a majority of the portion of the Distributions constituting the Principal Amount represented by the Certificates; *provided, however*, that there shall not be waived (i) any default in the payment of the Principal Amount of the Distributions with respect to any Outstanding Certificates at the stated Distribution Date therefor or (ii) any default in the payment when due of the interest component of the Distributions with respect to any such Certificates unless, prior to such waiver or rescission, all arrears of payments of interest and all arrears of payments of principal and premium, if any, when due, as the case may be, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Trustee, the Lessee, and the Certificateowners shall be restored to their former positions and rights hereunder respectively, but no such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

*Section 7.08. Direction of Proceedings.* The owners of at least a majority of the portion of the Distributions constituting the Principal Amount represented by the Certificates in respect of which an Event of Default has occurred shall have the right, by an instrument in writing executed and delivered to the Trustee, after furnishing security and indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder; *provided, however*, that any such direction shall not be contrary to law or the provisions of this Trust Agreement.

*Section 7.09. Rights and Remedies of Certificateowners.* No owner of any Certificate shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Trust Agreement or for the execution of any trust thereof or any other remedy hereunder, unless (a) a default has occurred of which the Trustee has been notified, or of which it is deemed to have notice, (b) such default has become an Event of Default and the owners of at least a majority of the portion of the Distributions constituting the Principal Amount represented by the Certificates then Outstanding have made written request to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) such owners have offered to the Trustee security and indemnity as provided for in this Trust Agreement and (d) the Trustee thereafter has failed or refused to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name or in the name of such owners. Such notification, request and offer of security and indemnity as set forth above, at the option of the Trustee, shall be conditions precedent to the execution of the powers and trusts of this Trust Agreement and to any action or cause of action for the enforcement of this Trust Agreement or for any other remedy hereunder; it being understood and intended that no one or more owners of the Certificates shall have any right in any manner whatsoever to affect,

disturb or prejudice this Trust Agreement by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner herein provided and for the equal benefit of the owners of all Certificates then Outstanding. Nothing in this Trust Agreement shall, however, affect or impair the right of any Certificateowner to enforce, by action at law or in equity, payment of any of the Distributions with respect to any Certificate at and after the stated Distribution Date therefor, or upon the date fixed for prepayment or the obligation for payment of Distributions hereunder with respect to each Certificate executed and delivered hereunder to the respective owners thereof at the time, place, from the source and in the manner expressed herein and in the Certificates.

## **ARTICLE VIII THE TRUSTEE**

The Trustee accepts the trusts hereunder and agrees to perform the same, but only upon the terms and conditions hereof, including the following, to all of which the respective owners of the Certificates at any time Outstanding by their acceptance thereof agree:

*Section 8.01. Duties of Trustee.* The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Trust Agreement. No permissive right of the Trustee contained in this Trust Agreement shall be construed as a duty.

Following an Event of Default, the Trustee is under no obligation to enforce the Trust Agreement or the Lease except as it may be directed pursuant to Section 7.02 or Section 8.02(i) hereof; *provided, however,* that the Trustee shall continue at all times to perform its customary duties as provided herein.

The Trustee shall not be required to provide any bond or surety in respect of the execution of these presents and the trusts and powers herein provided or otherwise in respect of the premises.

*Section 8.02. Trustee's Liability.* No provision of this Trust Agreement shall be construed to relieve the Trustee from liability for its gross negligence or willful misconduct, except that:

(a) the Trustee shall not be liable except for the performance of such duties as are specifically set forth in this Trust Agreement and no implied covenants or obligations shall be read into this Trust Agreement against the Trustee but the duties and obligations of the Trustee shall be determined solely by the express provisions of this Trust Agreement;

(b) in the absence of bad faith on the part of the Trustee, the Trustee may rely upon the authenticity of, and the truth of the statements and the correctness of the opinions expressed in, and shall be protected in acting upon, any ordinance, resolution, facsimile transmission, opinion of counsel, certificate, request, notice, consent, waiver, order, signature guaranty, notarial seal, stamp, acknowledgment, verification, appraisal, report or other paper or document believed by the Trustee to be genuine and to have been signed, affixed or presented by the proper party or parties, including any Authorized Representative;

(c) in the absence of bad faith on the part of the Trustee, whenever the Trustee, or any of its agents, representatives, experts or counsel, shall consider it necessary or desirable that any matter be proved or established, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of a duly authorized officer, including the Authorized Representative; *provided, however,* that the Trustee, or such agent, representative, expert or counsel, may require such further and additional evidence and make such further investigation as it or they may consider reasonable;

(d) the Trustee may consult with counsel and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance with such advice or opinion of counsel;

(e) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction or request of the owners of the Certificates;

(f) the Trustee shall not be liable for any error of judgment made in good faith by an officer of the Trustee;

(g) the Trustee shall not be deemed to have knowledge of any Event of Default hereunder or Lease Default unless and until an officer of the Trustee who customarily handles corporate trusts shall have actual knowledge thereof or the Trustee shall have received written advice thereof from the owner of any Certificate, the Trustor, or the Lessee;

(h) whether or not an Event of Default shall have occurred, the Trustee shall not be under any obligation to take any action under this Trust Agreement or the Lease which may tend to involve it in any expense or liability, the payment of which within a reasonable time is not, in its reasonable opinion, assured to it by the security afforded to it by the terms of this Trust Agreement, unless and until it is requested in writing so to do by one or more owners of the Certificates Outstanding hereunder and furnished, from time to time as it may require, with reasonable security and indemnity;

(i) whether or not an Event of Default shall have occurred, whenever it is provided in this Trust Agreement that the Trustee consent to any act or omission by any Person or that the Trustee exercise its discretion in any manner, the Trustee may (but need not) seek the written acquiescence of the owners of at least a majority of the portion of the Distributions constituting the Principal Amount represented by Certificates then Outstanding and, unless written evidence of such acquiescence has been received by the Trustee, it shall be fully justified in refusing so to consent or so to exercise its discretion; *provided, however*, the owners of not less than a majority of the portion of the Distributions constituting the Principal Amount represented by Certificates from time to time Outstanding have the right, upon furnishing to the Trustee such security and indemnification as the Trustee shall reasonably request, by an instrument in writing delivered to the Trustee, to determine which of the remedies herein set forth shall be adopted and to direct the time, method and place of conducting all proceedings to be taken under the provisions of this Trust Agreement for the enforcement thereof or of the Certificates; *provided, further*, that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceedings so directed may not lawfully be taken or would be prejudicial to owners of Certificates not parties to such direction;

(j) the Certificateowners shall not have any right to institute any action or proceedings at law or in equity for the execution and enforcement of the trusts hereby created unless, within sixty (60) days after a direction in writing shall have been given by the owners of not less than a majority of the portion of the Distributions constituting the Principal Amount represented by Certificates then Outstanding and such Certificateowners shall have offered the Trustee security and indemnification as provided in (i) above, the Trustee has failed or refused to institute the action on behalf of such Certificateowners;

(k) IN NO EVENT SHALL THE TRUSTEE BE LIABLE TO ANY PARTY OR THIRD PARTY FOR SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES, LOST PROFITS OR LOSS OF BUSINESS ARISING UNDER OR IN CONNECTION WITH THIS TRUST AGREEMENT AND THE MASTER LEASE, EVEN IF PREVIOUSLY INFORMED OF THE POSSIBILITY OF SUCH DAMAGES AND REGARDLESS OF THE FORM OF ACTION;

(l) the Trustee shall not sell, mortgage, transfer, assign or hypothecate its interest herein, in the Lease or in the Equipment or any part of any thereof or any interest therein, except as provided herein;

(m) in any judicial proceeding to which the Lessee is a party and which in the opinion of the owners of at least a majority in aggregate Principal Amount represented by all Certificates then Outstanding has a substantial bearing on the interests of such owners of the Certificates, the owners of the Certificates may direct, in writing, the Trustee to intervene on behalf of Certificateowners. The rights and obligations of the Trustee under this paragraph are subject to the approval of a court of competent jurisdiction; and

(n) the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees, but shall, in the case of attorneys, agents, receivers or employees, not be answerable for the conduct of the same if appointed by the Trustee in good faith and without gross negligence, and shall be entitled to advice of counsel concerning its duties hereunder, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith in reliance thereon, and it may in all cases pay such reasonable compensation to all such attorneys, agents and receivers as may reasonably be employed in connection with the trusts hereof or thereof.

*Section 8.03. No Responsibility of Trustee for Recitals.*

(a) The Trustee assumes no responsibility for the correctness of the recitals and statements contained herein and in the Certificates, nor shall the Trustee have any responsibility for or any liability with respect to any disclosure, warranty, representation or concealment or failure to disclose in connection with the offering, solicitation, sale or distribution of the Certificates.

(b) The Trustee makes no representations as to the validity or sufficiency of this Trust Agreement, the Assignment, the Certificates, the interest of the Trustee in the Trust Estate or the descriptions thereof or the filing or recording or registering of this Trust Agreement or any other document. The Trustee shall not be required to undertake any act or duty to insure or cause to be insured any of the Equipment or to maintain, repair or otherwise take care of any of the Equipment.

(c) The Trustee shall not be concerned with or accountable to anyone for the use or application of any proceeds of the sale of the Certificates or any deposited moneys that shall be released or withdrawn in accordance with the provisions of this Trust Agreement or of any funds or securities or the proceeds thereof that shall be disbursed in accordance with the provisions of this Trust Agreement.

(d) The Trustee shall not be liable to anyone for any defect in any portion of the Equipment, nor shall anything herein be construed as a warranty on the part of the Trustee in respect thereof or as a representation in respect of the title thereto.

*Section 8.04. Compensation and Expenses of Trustee.* The Trustee shall be paid a reasonable compensation by the Trustor for all services to be rendered by it hereunder. The Trustee shall be reimbursed by the Trustor from time to time for all of its reasonable expenses and charges and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts and the performance of its powers and duties hereunder. In the event that the Trustee should resign or be removed pursuant to the provisions of this Trust Agreement, the Trustee shall be entitled to collect all fees and expenses owed to the Trustee prior to the effective date of its resignation or removal, such fees and expenses to be delivered to the Trustee within thirty (30) days after such resignation or removal.

*Section 8.05. Status of Moneys Received.* All moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other moneys, except to the extent required by law or as provided herein, and may be deposited by the Trustee under such general conditions as may be prescribed by law in the Trustee's general banking department, and the Trustee shall not be liable for interest on any moneys received by it hereunder.

*Section 8.06. Resignation of Trustee.* The Trustee may resign and be discharged from the trusts created hereby by delivering forty-five (45) days' prior written notice thereof, by Mail, to the Lessee, the Trustor and all owners of the Certificates at the time Outstanding. Such resignation shall take effect only upon the appointment of a successor trustee and the acceptance of such appointment by such successor trustee.

*Section 8.07. Removal of Trustee.* The Trustee may be removed at any time, for or without cause, by an instrument or instruments in writing delivered to the Trustee and executed by the Trustor and the Lessee. Such removal shall take effect only upon the appointment of a successor trustee and the acceptance of such appointment by such successor trustee.

*Section 8.08. Appointment of Successor Trustee.* In case at any time the Trustee shall resign or be removed or become incapable of acting, a successor Trustee may be appointed by an instrument or instruments in writing executed by the Trustor and the Lessee.

If a successor Trustee shall not be appointed pursuant to this Section within thirty (30) days after a vacancy shall have occurred in the office of the Trustee, the owners of not less than a majority of the portion of the Distributions constituting the Principal Amount represented by Certificates then Outstanding or such retiring Trustee (unless the retiring Trustee is being removed) may apply to any court of competent jurisdiction to appoint a successor Trustee, and such court may thereupon, after such notice, if any, as it may consider proper, appoint a successor Trustee.

*Section 8.09. Succession of Successor Trustee.* Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Lessee, the Trustor, and the predecessor Trustee an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed, conveyance or transfer, shall become vested with the title to the Trust Estate, and with all the rights, powers, trusts, duties and obligations of the predecessor Trustee in the trust hereunder, with like effect as if originally named as Trustee herein. Any such successor Trustee shall also be successor under any Assignment and the Master Lease and may require any reasonable certificate, agreement or opinion from the Trustee to evidence such succession.

Upon the request of any such successor Trustee, however, the predecessor Trustee shall execute and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee the predecessor Trustee's interest in the Trust Estate and all such rights, powers, trusts, duties and obligations of the predecessor Trustee and the predecessor Trustee shall also assign and deliver to the successor Trustee any of the Trust Estate that may then be in its possession.

*Section 8.10. Eligibility of Trustee.* The successor Trustee shall be a state or national bank or trust company in good standing organized under the laws of the United States of America or of any state thereof, having a combined capital, surplus and undivided profits aggregating at least \$25,000,000, if there be such a bank or trust company willing and able to accept such trust upon reasonable and customary terms.

In case the successor Trustee shall cease to be eligible in accordance with the provisions of this Section, the successor Trustee shall resign immediately in the manner and with the effect specified in **Section 8.06** hereof.

The Trustee, including its affiliates, in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Certificates executed and delivered hereunder, and may join in any action which any owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Lessee and the Trustor and may act as depository, trustee or agent for any

committee or body of owners of Certificates or other obligations of the Lessee and the Trustor as freely as if it did not act in any capacity hereunder.

*Section 8.11. Successor Trustee by Merger.* Any corporation into which the Trustee may be merged or with which it may be consolidated or converted, or any corporation resulting from any merger, consolidation or conversion to which the Trustee shall be a party, or any state or national bank or trust company in any manner succeeding to the corporate trust business of the Trustee as a whole or substantially as a whole, if eligible as provided in **Section 8.10** hereof, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything to the contrary contained herein notwithstanding.

*Section 8.12. Trust Estate May be Vested in Separate or Co-Trustee.* It is the purpose of this Trust Agreement that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the right of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under this Trust Agreement or the Master Lease, and in particular in case of the enforcement of any of them, either on default or otherwise, or in case the Trustee, in reliance upon an opinion of counsel, deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions are adopted to these ends:

(a) In the event that the Trustee appoints an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Trust Agreement to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

(b) Should any deed, conveyance or instrument in writing from the Trustor or the Lessee be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such deeds, conveyances and instruments in writing shall, on request, be executed, acknowledged and delivered by the Trustor or the Lessee.

(c) In case any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting, resign, be removed or be dissolved, or shall be in the course of dissolution or liquidation, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

## **ARTICLE IX LIMITATIONS OF LIABILITY**

*Section 9.01. Limitations of Liability of the Trustor.* All representations, covenants, stipulations, promises, agreements and obligations of the Trustor contained in this Trust Agreement shall be deemed to be the respective limited representations, covenants, stipulations, promises, agreements and obligations of the Trustor, and not of any officer, employee or agent of the Trustor, nor of any incorporator, employee or agent of any successor to the Trustor, in its individual capacity. No recourse shall be had against any such individual, either directly or otherwise under or upon any representation, obligation, covenant, stipulation, promise or agreement contained herein or in any other document executed in connection herewith. As

referenced in each Certificate, each Certificateowner has expressly waived and released the Trustee from any and all personal liability or obligation, whether in common law or in equity or by reason of statute or constitution or otherwise, of any such person is hereby expressly waived and released by the Certificateowners as a condition to and consideration for the execution and delivery of the Certificates. By acceptance of a Certificate, the Certificateowners have agreed to look solely to the Trust Estate for the payment of said interests or the satisfaction of such personal liability or any liability of the Trustor hereunder; *provided, however*, nothing herein contained shall limit, restrict or impair the rights of the Certificateowners or the Trustee to exercise all rights and remedies provided under this Trust Agreement or the Lease or otherwise realize upon the Trust Estate; and *provided further* that the Trustee may join the Trustor and its officers, agents and employees, in their capacities as officers, agents and employees of the Trustor, as defendants in any legal action if undertaken to enforce its rights and remedies hereunder.

*Section 9.02. Limitations of Liability of Trustee.* All representations, covenants, stipulations, promises, agreements and obligations of the Trustee contained in this Trust Agreement shall be deemed to be the respective limited representations, covenants, stipulations, promises, agreements and obligations of the Trustee, and not of any officer, employee or agent of the Trustee, nor of any incorporator, employee or agent of any successor to the Trustee, in its individual capacity. No recourse shall be had against any such individual, either directly or otherwise under or upon any representation, obligation, covenant, stipulation, promise or agreement contained herein or in any other document executed in connection herewith. Any and all personal liability or obligation, whether in common law or in equity or by reason of statute or constitution or otherwise, of any such person is hereby expressly waived and released by the Certificateowners as a condition to and consideration for the execution and delivery of the Certificates and the execution of this Trust Agreement and the other Operative Agreements. The Certificateowners agree to look solely to the Trust Estate for the payment of any liabilities of the Trustee hereunder except for liability directly attributable to the Trustee's own gross negligence or willful misconduct.

## ARTICLE X AMENDMENT OF THE TRUST AGREEMENT

*Section 10.01. Amendment of the Trust Agreement without Certificateowner Consent.* This Trust Agreement may be modified or amended from time to time and at any time by an agreement which the parties hereto may enter into without the consent of or notice to the Certificateowners, but only to the extent permitted by law and only for any one or more of the following purposes:

- (a) to permit the qualification of this Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;
- (b) to cure any ambiguity or cure, correct or supplement any provision contained herein or in any Supplemental Trust Agreement that may be defective or inconsistent with any other provision contained herein or to make such other provisions in regards to matters or questions arising under this Trust Agreement as shall not adversely affect the interest of any Certificateowner;
- (c) to comply with any additional requirements necessary, with respect the Certificates, so that the interest component of the Lease Payments that is received by the Owners of the Certificates is not includible in the gross income of the Certificateowners for federal income tax purposes; and
- (d) to make any other change which the Trustee determines will not materially adversely affect the interests of the Certificateowners.

*Section 10.02. Amendment of the Trust Agreement with Certificateowner Consent.* Except as permitted by **Section 10.01** hereof, this Trust Agreement may be modified or amended from time to time and at any time by an amendment or supplement hereto or thereto which the parties hereto or thereto may

enter into with the prior written consent of the Trustee (which shall not be withheld unreasonably) and the owners of at least 66-2/3% of the portion of the Distributions constituting the Principal Amount represented by Certificates then Outstanding. No such modification or amendment shall (a) impair or affect the right of any owner to receive payments of the Distributions with respect to its Certificate, as therein and herein provided, without the consent of such owner, (b) permit the creation of any Lien with respect to any of the Trust Estate, without the consent of the owners of all the Certificates at the time Outstanding, (c) effect the deprivation of the owner of any Certificate of the benefits of this Trust Agreement upon all or any part of the Trust Estate without the consent of such owner, (d) reduce the aforesaid percentage of the aggregate principal amount of Certificates, the owners of which are required to consent to any such modification or amendment pursuant to this **Section 10.02**, without the consent of the owners of all of the Certificates at the time Outstanding, or (e) modify the rights, duties or immunities of the Trustee without the consent of the Trustee and the owners of all of the Certificates at the time Outstanding.

*Section 10.03. Notice of Amendments.* Promptly after the execution of any modification or amendment to this Trust Agreement pursuant to the provisions of **Section 10.01** or **Section 10.02** hereof, the Trustee shall give written notice, setting forth in general terms the substance of such modification or amendment, together with a conformed copy thereof, by Mail to each owner of the Certificates. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such modification or amendment.

*Section 10.04. Effect of Amendments.* Upon the execution of any amendments hereto, pursuant to this **Article X**, this Trust Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Trust Agreement of the Trustor, the Trustee and all owners of Certificates then Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such amendment shall be deemed to be part of the terms and conditions of the Trust Agreement for any and all purposes.

## **ARTICLE XI MISCELLANEOUS**

*Section 11.01. Successors and Assigns; Parties in Interest.* Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all the covenants, promises and agreements in this Trust Agreement contained by or on behalf of the Trustor or the Trustee shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Trust Agreement or the Certificates is intended or shall be construed to give to any Person other than the parties hereto, the Lessee, and the Certificateowners any legal or equitable right, remedy or claim under or in respect to this Trust Agreement.

*Section 11.02. Partial Invalidity.* The unenforceability or invalidity of any provision or provisions of this Trust Agreement shall not render any other provision or provisions herein contained unenforceable or invalid; *provided, however* that nothing contained in this Section shall be construed to amend or modify the immunities of Trustor in its individual capacity provided for in **Section 9.01** hereof, or to amend or modify the immunities of the Trustee in its individual capacity provided for in **Section 9.02** hereof, or to amend or modify any limitations or restrictions on the Trustee or any Certificateowner or their respective successors or assigns under **Article VIII** hereof.

*Section 11.03. Communications.* All communications provided for herein shall be in writing. Communications to the parties hereto shall be deemed to have been given (unless otherwise required by the specific provisions hereof in respect of any matter) when delivered by Mail, addressed as follows:

Trustee: U.S. Bank National Association  
Global Corporate Trust Services  
P.O. Box 4026  
Brandon, Mississippi 39407  
Attention: Wallace Duke

Trustor: First Southwest Leasing Company  
1201 Elm Street  
Suite 3500  
Dallas, Texas 75270

Lessee: State of Mississippi  
Department of Finance and Administration  
501 North West Street  
1301 Woolfolk Building  
Jackson, Mississippi 39201

or to the Trustee or the Trustor at such other address as the Trustee or the Trustor may designate by notice duly given in accordance with this **Section 11.03** to the other party. It shall be sufficient service of any notice or other paper on any Certificateowner if such notice is given by Mail at the address shown in the Register.

*Section 11.04. Counterparts.* This Trust Agreement may be executed and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Trust Agreement.

*Section 11.05. Governing Law.* This Trust Agreement and the Certificates shall be construed in accordance with and governed by the laws of the State of Mississippi.

*Section 11.06. Headings.* Any headings or captions preceding the text of the several Sections and Subsections hereof are intended solely for convenience of reference and shall not constitute a part of this Trust Agreement, nor shall they affect its meaning, construction or effect.

*Section 11.07. Consents, etc., of Certificateowners.* Any consent, request, direction, approval, objection or other instrument required by this Trust Agreement to be signed and executed by the Certificateowners may be in any number of concurrent documents of similar tenor and may be executed by such Certificateowners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Certificates, if made in the following manner, shall be sufficient for any of the purposes of this Trust Agreement, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any Person of any such writing may be proved by the certification of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the Person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Certificates and the amount or amounts, numbers and other identification of such Certificates, and the date of holding the same shall be proved by the Register.

For all purposes of this Trust Agreement and of the proceedings for the enforcement hereof, such Person shall be deemed to continue to be the owner of such Certificate until the Trustee shall have received notice in writing to the contrary.


*Section 11.08. Payments Due on Non-Business Days.* In any case where a Distribution Date or the date fixed for prepayment of any Certificates shall not be a Business Day, then payment of interest, principal or premium, if any, need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the scheduled Distribution Date or the date fixed for prepayment, as the case may be, and no interest shall accrue for the period after such date.

*Section 11.09. The Lessee.* Notwithstanding anything to the contrary within this Trust Agreement, the Lessee is a party to this Trust Agreement for the sole purpose of complying with the requirements of section 31-7-10(15) of the Mississippi Code of 1972, as amended, in the establishment of the Acquisition Fund and thereby limits its execution of this Trust Agreement to that extent, and in executing this Trust Agreement, the Lessee in no waives any of its rights, immunities or defenses under law or contract.

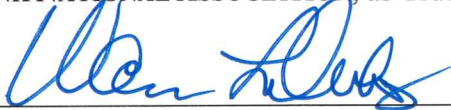
**[SIGNATURES APPEAR ON THE FOLLOWING PAGE.]**

IN WITNESS WHEREOF, First Southwest Leasing Company, in its capacity as the Trustor hereunder, U.S. Bank National Association, in its capacity as the Trustee hereunder, and the State of Mississippi, represented by and acting through the Department of Finance and Administration, in its capacity as the Lessee under the Lease, have each caused this Trust Agreement to be duly executed by their respective duly authorized representatives, all as of the day and year first above written.

**FIRST SOUTHWEST LEASING COMPANY, as Trustor**

By:   
Vickie Hall  
Vice President

**U.S. BANK NATIONAL ASSOCIATION, as Trustee**

By:   
Wallace Duke  
Vice President

**THE STATE OF MISSISSIPPI, REPRESENTED BY AND  
ACTING THROUGH THE DEPARTMENT OF FINANCE AND  
ADMINISTRATION**

By:   
Liz Welch  
Interim Executive Director

**Appendix "A"**  
The Form of Certificate

REGISTERED  
R-\_\_\_\_

REGISTERED  
\$ \_\_\_\_\_

**PRIVATELY-PLACED LEASE REVENUE CERTIFICATE OF PARTICIPATION  
(MASTER LEASE PROGRAM, SERIES 2020A)**

**Evidencing Proportionate Interests in Lease Payments to be made pursuant to  
a Master Lease Purchase Agreement and Equipment Schedules thereto  
made and entered into by and between**

**THE STATE OF MISSISSIPPI, Represented by and Acting Through  
The State of Mississippi Department of Finance and Administration,  
and**

**FIRST SOUTHWEST LEASING COMPANY**

**NOTICE:** The Certificates have not been registered under the Securities Act of 1933, as amended (the "*Securities Act*") or registered under the securities laws of any state. In addition, the trust will not be registered under the Investment Company Act of 1940, as amended (the "*1940 Act*"). Neither the Certificates nor any interest therein may be transferred except in compliance with the Securities Act and applicable state securities laws. Neither the trust, the Trustor, the Trustee nor the Lessee is obligated to register or qualify the Certificates or any interest therein under the Securities Act or any other securities law. The initial purchaser of this Certificate is purchasing the Certificates for its own account and it has no present intention of reselling or otherwise redistributing the Certificates. The purchaser and all subsequent holders of the Certificates will not sell or transfer the Certificates to any Person that is not a bank as defined in Section 3(a)(2) of the Securities Act, or (i) who is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act, or (b) a "qualified institutional buyer" within the meaning of Rule 144A promulgated under the Securities Act, each of whom will execute a purchase letter acceptable to the Lessee and the Trustee, which certifies that it is purchasing the Certificates for its own account and not for resale or distribution, and will not sell, convey, pledge or otherwise transfer the Certificates without prior compliance with applicable registration and disclosure requirements of state and federal securities laws.

**DATED DATE**

March 5, 2020

**INTEREST RATE**

1.94%

**MATURITY DATE**

October 15, 2024

**REGISTERED OWNER:**

**PRINCIPAL AMOUNT:**

**\*\*One Million Three Hundred Five Thousand and No/100\*\*  
DOLLARS**

THIS IS TO CERTIFY THAT the registered owner specified above is the owner of a participation interest in that certain Series 2020A Master Lease Purchase Agreement (the "Master Lease Agreement"), and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the "Equipment Schedules", and together with the Master Lease Agreement, the "Lease"), made and entered into by and between First Southwest Leasing Company ("FirstSouthwest Leasing"), as the Lessor, and the State of Mississippi (the "State"), acting by and through the State of Mississippi Department of Finance and Administration, an agency of the State, as the Lessee ("Lessee") acting on behalf of one or more agencies or departments (each, an "Agency") and community college districts of the State (each, a "Community College District" or "the District", and collectively with the Agencies, the "Participating Users"), and in the Lease Payments (the "Lease Payments") to be made thereunder.

All rights, titles, interests and obligations of FirstSouthwest Leasing in and to the Lease, the Lease Payments and the equipment being purchased or refinanced by Lessee thereunder (the "Equipment") have been assigned to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020 between FirstSouthwest Leasing, as the assignor, and the Trustee, as the assignee.

**NEITHER THE LEASE, NOR THE LESSEE'S OBLIGATION TO MAKE LEASE PAYMENTS THEREUNDER, NOR THE CERTIFICATES, ARE A GENERAL OBLIGATION OF THE LESSEE, AND THE FULL FAITH AND CREDIT OF THE LESSEE IS NOT PLEDGED THERETO. THE DISTRIBUTIONS PAYABLE WITH RESPECT TO THE CERTIFICATES ARE PAYABLE SOLELY FROM (I) THE LEASE PAYMENTS AND (II) CERTAIN MONEYS HELD BY THE TRUSTEE UNDER THE TRUST AGREEMENT. THE LEASE PAYMENTS ARE PAYABLE SOLELY FROM FUNDS APPROPRIATED FOR SUCH PURPOSE BY LESSEE TO THE PARTICIPATING USERS, BUT LESSEE IS NOT REQUIRED TO APPROPRIATE OR PROVIDE MONEYS FOR SUCH PURPOSE. IF MONEYS ARE NOT APPROPRIATED BY THE LESSEE TO THE PARTICIPATING USERS FOR ANY FISCAL PERIOD, THE LEASE AND THE USER AGREEMENTS MAY BE TERMINATED IN WHOLE OR IN PART AT THE END OF THE PRECEDING FISCAL PERIOD, AND LESSEE IS NOT REQUIRED TO MAKE THE LEASE PAYMENTS COMING DUE AFTER SUCH TERMINATION WITH RESPECT TO THAT PORTION OF THE LEASE PAYMENTS FOR WHICH MONEYS WERE NOT APPROPRIATED BY LESSEE TO THE PARTICIPATING USERS; HOWEVER, WITH RESPECT TO THE COMMUNITY COLLEGE DISTRICT, ANY FUNDS APPROPRIATED TO THE COMMUNITY COLLEGE DISTRICT IN THE STATE APPROPRIATIONS ALLOCATED TO THAT DISTRICT FOR ITS USE AND SUPPORT.**

The Owner (as defined in that certain Trust Agreement dated as of March 5, 2020, by and among FirstSouthwest Leasing, as the trustor, the Trustee, as the Trustee, and the Lessee and hereinafter referred to as the "Trust Agreement") of this Certificate is entitled to receive certain amounts (the "Distributions") on each April 15 and October 15 (the "Distribution Dates"), commencing April 15, 2020, until the Maturity Date of this Certificate set forth above (the "Maturity Date") or upon the earlier redemption of this Certificate. The total amount of Distributions to be made with respect to this Certificate shall be equal to the Principal Amount of this Certificate set forth above (the "Principal Amount") plus interest with respect to such Principal Amount calculated in the manner prescribed by the Trust Agreement at a per annum rate equal to the interest rate set forth above. Each Distribution shall contain an interest component. The entire Principal Amount of this Certificate shall be included in the final Distribution made on the Maturity Date. Distributions, other than the final Distribution, shall be paid on a Distribution Date (or if any such Distribution Date is not a Business Day (as defined in the Trust Agreement), then on the Business Day next succeeding such Distribution Date) by check or draft mailed by the Trustee to the person in whose name a Certificate is registered on the Register (as defined in the Trust Agreement) at the close of business on the Record Date, and at the address appearing on the Register; provided, however, if an Owner of \$500,000 or more in Principal Amount of Certificates (i) in writing prior to the relevant Record Date, requests the Trustee to make payment of any Distribution by wire transfer, and (ii) reimburses the Trustee in advance for any costs that the Trustee incurs in complying with such request, the Trustee shall make payment on such Certificate in accordance with such Owner's request. "Record Date" shall mean a day (whether or not such day is a Business Day) which is the fifteenth (15th) day prior to the day on which the Distribution is to be made.

Payment of the final Distribution indicated herein shall be made only upon presentation and surrender of this Certificate at a corporate trust office of the Trustee in Brandon, Mississippi, or at the principal corporate trust office of any successor Trustee.

The Trustee has no obligation or liability to the Owners of the Certificates for the payment of the Distributions other than from certain funds established under the Trust Agreement. The Trustee's sole obligations with respect to such payment are to administer, for the benefit of the Owners of the Certificates, the various funds, other than the Rebate Fund (as defined in the Trust Agreement), and accounts established under the Trust Agreement.

The following is a summary of certain provisions of the Trust Agreement pursuant to which this Certificate has been executed and delivered by the Trustee. Copies of the Trust Agreement are on file at the corporate trust agency office of the Trustee, and reference is hereby made to the Trust Agreement and any and all amendments thereto for a description of the security for the Certificates, the nature, extent and manner of enforcement of such security, the rights with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder. All terms of the Trust Agreement and any and all amendments thereto, are incorporated by reference as if set forth herein. By acceptance of this Certificate, the Owner of this Certificate assents to and is bound by the Trust Agreement.

The Trustee, Lessee and FirstSouthwest Leasing may, from time to time and at any time, enter into a Supplemental Trust Agreement (a) for any purpose not inconsistent with the terms of the Trust Agreement or to cure any ambiguity or formal defect or omission in the Trust Agreement which may be defective or inconsistent with any other provision contained in the Trust Agreement, or to make such other provisions in regard to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement and which, in the opinion of the Trustee, shall not adversely affect the interests of the Owners; or (b) to grant to and confer upon the Owners, or the Trustee, for the benefit of the Owners, any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Owners or the Trustee. Without the consent of the parties thereto and of the Owners of all Certificates Outstanding, no modification or amendment to the Trust Agreement shall be made which would (i) alter the Distribution amounts or the Distribution Dates with respect to the Certificates or the redemption provisions thereof, (ii) modify the terms of payment or the right to enforce payment of the Certificates or (iii) reduce the required percentage of consenting Owners.

Subject to the foregoing limitations, the Trust Agreement may be modified or amended from time to time and at any time with the written consent of the Trustee, FirstSouthwest Leasing and the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates Outstanding.

Subject to the restriction printed on this Certificate, this Certificate is transferable by the Owner hereof, or by his attorney duly authorized in writing, at a corporate trust office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such transfer, a new fully registered Certificate or Certificates, of the same Maturity Date and authorized denomination or denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof, will be issued to the transferee in exchange therefor.

The Trustee may treat the Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Certificates are subject to optional redemption prior to their Maturity Date in whole or in part, and if in part, by lot based on principal amount being prepaid pursuant to the Lease, commencing April 15, 2023, and on each Distribution Date thereafter in the event the Lessee elects to exercise its prepayment options in accordance with the provisions of the Lease.

The Certificates are subject to extraordinary redemption prior to their Maturity Date, in whole or in part, and if in part, by lot based on principal amount being prepaid pursuant to the Lease, at a price of par plus accrued interest, without premium, (a) on any Distribution Date, in the event the Lessee determines that all or any portion of the funds then remaining on deposit in the Acquisition Fund shall not thereafter be utilized to acquire Equipment subject to a User Agreement and related Equipment Schedule, and directs

the Trustee to apply such funds to the reduction of the principal amount of its future Lease Payments, and (b) on any Distribution Date, in the event that there occurs an event of damage or loss to all or substantially all of the Equipment subject to a User Agreement and related Equipment Schedule, and the Lessee elects to not use the proceeds of any insurance recovery in respect of such damage or loss to replace such Equipment but instead exercises its option to purchase such lost or damaged Equipment.

In the event of a partial redemption, such partial redemption will be made in such a manner that the remaining Lease Payments under the Lease will be sufficient to pay the remaining Distributions on the Certificates.

In the event of a partial redemption, the Trustee shall be entitled to seek and rely on the advice of FirstSouthwest Leasing or such other person as it deems appropriate as to the Principal Amount represented by the Certificates to be called for redemption, based on the amount being prepaid.

The Certificates are subject to mandatory sinking fund redemption on April 15 and October 15 through the Stated Maturity, at a redemption price of par plus interest to the date of such redemption, such amount to be distributed to the Owners thereof in each of the dates and in the respective principal amounts set forth below, subject to a reduction on such date as provided below:

<b><u>Distribution Date</u></b>	<b><u>Sinking Fund Installment</u></b>
April 15, 2020	\$140,000
October 15, 2020	135,000
April 15, 2021	140,000
October 15, 2021	135,000
April 15, 2022	140,000
October 15, 2022	140,000
April 15, 2023	145,000
October 15, 2023	140,000
April 15, 2024	95,000
October 15, 2024	95,000 <sup>(1)</sup>

<sup>(1)</sup>Maturity Date.

The Certificates to be redeemed by mandatory redemption shall be selected by lot from among the Certificates of the same maturity.

The principal amount of the Certificates required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced by the principal amount of the Certificates of the same maturity which shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

The Trustee shall cause notice of redemption to be mailed to the Owners of the Certificates at least thirty (30) but not more than forty-five (45) days prior to the date fixed for redemption. If this Certificate is called for redemption and payment is duly provided therefor, as specified in the Trust Agreement, any further payment shall cease to accrue hereon from and after the date fixed for redemption.

Upon the termination of the Lease because of a nonappropriation or the occurrence and continuation of an Event of Default, the Trustee shall immediately accelerate the maturities of all of the Certificates, upon at least fifteen (15) but not more than thirty (30) days' notice. Notwithstanding anything contained herein to the contrary, upon the occurrence of an Event of Default, the Trustee shall, at the direction of 51% of the Owners declare the principal of the Certificates to be immediately due and payable, whereupon the principal of the Certificates and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable.

Following acceleration of the maturities of the Certificates, the Trustee may, upon request of the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates Outstanding and shall, upon receipt by the Trustee of satisfactory security, indemnity and advice of Counsel to the Trustee, exercise any and all rights and remedies under the Lease, provided, however, that the Trustee shall not re-lease the Equipment to a different lessee without the prior consent of the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates outstanding.

After the payment of fees and expenses incurred by the Trustee in connection with the pursuit of any legal remedies and the performance of any of its other obligations under the Trust Agreement, any moneys collected pursuant to such action shall be applied first, to the Rebate Fund, if any, in an amount equal to the amount set forth in the written instructions of nationally recognized bond counsel or certified public accountants nationally recognized as experts in the calculation of arbitrage rebate in connection with which the Rebate Fund was established; second, distributed ratably to the Owners of the Certificates Outstanding, all installments of the interest component of Distributions then payable with respect to the Certificates, in the order of the payment date of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, without any discrimination or privilege; third, to the extent of available moneys, distributed ratably to the Owners of the Certificates Outstanding, the unpaid Principal Amount and premium, if any, with respect to all Certificates then Outstanding which shall have become due (other than Certificates called for prepayment for the payment of which moneys are held pursuant to the provisions of the Trust Agreement), in the order of their Distribution Dates, with interest on the unpaid Principal Amount at the rates specified therein from the respective dates upon which they become due, and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, together with such interest, then first to the payment of such interest ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the Principal Amount due on such date, to the Owners entitled thereto, without any discrimination or privilege; and finally, to the extent permitted by law, to the payment to the Owners entitled thereto of the unpaid interest on overdue installments of interest ratably, according to the amounts of such interest due on such date, without any discrimination or privilege.

**IN WITNESS WHEREOF**, this Certificate has been executed by the manual signature of a duly authorized signatory of the Trustee.

**U.S. BANK NATIONAL ASSOCIATION**, as Trustee

By: \_\_\_\_\_  
(Authorized Signature)

Authentication Date: \_\_\_\_\_

**ASSIGNMENT**

**FOR VALUE RECEIVED,** \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ the within Certificate and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney to transfer the ownership of the within Certificate on the registration books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
**NOTICE:** The signature on this assignment must correspond with the name as written upon the face of this Certificate in every particular, without alteration or enlargement or any change whatever, and must be guaranteed by a member firm of a Medallion Signature Guarantee Program acceptable to Trustee.

Signature Guarantee:

By: \_\_\_\_\_

\_\_\_\_\_  
Name of Institution

## INFORMATION REQUIRED FOR REGISTRATION

Address of  
Transferee: \_\_\_\_\_  
\_\_\_\_\_

Telephone Number of Transferee: \_\_\_\_\_

Social Security or Tax  
Identification Number of Transferee: \_\_\_\_\_

Transferee is a(n)      Individual\* ☐   
                                 Corporation ☐   
                                 Partnership ☐   
                                 Trust ☐   
                                 Settler's Name: \_\_\_\_\_   
                                 Settler's Social Security Number: \_\_\_\_\_

If the Certificate is to be registered in the names of individual owners, the name, address and social security number of each individual owner must be provided.

## APPENDIX B

### INVESTMENT LETTER OF PURCHASER

The undersigned, **Trustmark National Bank** (the “Purchaser”), hereby certifies and acknowledges that, in connection with the purchase by it of the \$1,305,000 State of Mississippi Master Lease Program for State Agencies Privately-Placed Lease Revenue Certificates of Participation Series 2020A (the “Certificates”) evidencing proportionate interests in lease payments to be made pursuant to a Master Lease Purchase Agreement (the “Master Lease”) made and entered into by and between the State of Mississippi (the “State”), represented by and acting through the State of Mississippi Department of Finance and Administration, as Lessee (the “Lessee”), and First Southwest Leasing Company, as Lessor (the “Lessor”), and executed and delivered under and secured by a Trust Agreement by and among the Lessor, the Lessee, and U.S. Bank National Association, as trustee (the “Trustee”):

1. The Purchaser has conducted its own investigations, to the extent it deems satisfactory or sufficient, into matters relating to the business, properties, management, and financial position and results of operations of the State in connection with the Master Lease, and the execution and delivery by the Trustee of the Certificates; it has had an opportunity to receive such information, documents and materials concerning the State as it deems to be necessary in connection with its evaluation of the merits and risks of its purchase of the Certificates; and during the course of this transaction and prior to the purchase of the Certificates it has been provided with the opportunity to ask questions of and receive answers from the State or its representatives concerning the terms and conditions of the State’s Master Lease Program and the Master Lease, and the offering of the Certificates, and to obtain any additional information needed in order to verify the accuracy of the information obtained.

2. The Purchaser has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal obligations, and is capable to evaluate the risks and merits of the investment represented by the purchase of the Certificates.

3. The Purchaser is aware that certain economic and political variables could affect its security in the Certificates and the Purchaser is able to bear the economic risks of its purchase of the Certificates.

4. The Purchaser acknowledges and represents that it has not sought from Butler Snow LLP (“Special Counsel”) or the Special Assistant Attorney General of the State of Mississippi (“Lessee’s Counsel”) or received from Special Counsel or Lessee’s Counsel, or looked to or relied upon Special Counsel or Lessee’s Counsel for any information with respect to the State or its financial condition and that Special Counsel and Lessee’s Counsel have no responsibility for furnishing such information.

5. The Purchaser is either (i) an “accredited investor” within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended (the “Act”) or (ii) a “qualified institutional buyer” as defined in Rule 144A of the Act.

6. The Purchaser hereby certifies that it is purchasing the Certificates for its own account as evidence of a privately-placed and negotiated sale of the Certificates and not for resale at a profit, and that it is its present intention to hold the Certificates to maturity or earlier redemption in accordance with Rule G-34 of the Municipal Securities Rulemaking Board, but subject, nevertheless, to the disposition of the Certificates being at all times within the control of the undersigned and that the Certificates will not be sold in contravention of the Securities Act of 1934, as amended, or in contravention of the securities laws of any state.

7. While it has no present intention to sell or otherwise dispose of all or any part of the Certificates purchased by it, the Purchaser assumes responsibility for disclosing all material information in compliance with all applicable federal and state security laws in the event of its resale of the Certificates.

8. The Purchaser understands that the portion of each Lease Payment designated as interest in the Lease and the allocable portion thereof distributable in respect of each Certificate (herein referred to as “interest distributable on Certificates”), is intended to be excludable pursuant to Section 103(a) of the Internal Revenue Code from the gross income of the owners thereof for Federal income tax purposes, and (b) such Lease Payment Interest, and such interest distributable on Certificates, do not constitute items of tax preference, within the meaning of and to the extent provided in Section 57(a) of the Internal Revenue Code, for purposes of the Federal alternative minimum tax on individuals and corporations

**IN WITNESS WHEREOF**, the undersigned has hereunto set its hand as of this 5th day of March 2020.

**TRUSTMARK NATIONAL BANK,**  
as Purchaser

By \_\_\_\_\_  
J. Trent Marchman  
Vice President

## ABSOLUTE ASSIGNMENT AGREEMENT

THIS ABSOLUTE ASSIGNMENT AGREEMENT (this "*Assignment*") is made as of March 5, 2020, by and between FIRST SOUTHWEST LEASING COMPANY, a corporation duly organized and validly existing under the laws of the State of Delaware, whose mailing address is 1201 Elm Street, Suite 3500, Dallas, Texas 75270 ("*Assignor*"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, in its capacity as trustee ("*Trustee*") under the Trust Agreement described below, whose mailing address is P.O. Box 4026, Brandon, Mississippi 39047 ("*Assignee*").

### WITNESSETH:

WHEREAS, Assignor has entered into that certain Master Lease Purchase Agreement (Master Lease Program Series 2020A) (the "*Lease*") with the State of Mississippi, represented by and acting through its Department of Finance and Administration (the "*Lessee*"), pursuant to which Assignor has agreed to lease to the Lessee certain equipment and other personal property (the "*Equipment*") in consideration for the payment by the Lessee of certain payments (defined in the Lease and referred to herein as the "*Lease Payments*") with respect to the Equipment, and the Lessee has granted a security interest in the Equipment to secure payment of the Lease Payments and performance of all obligations of Lessee under the Lease, all on the terms and conditions provided in the Lease; and

WHEREAS, Assignor is authorized under the Lease to assign its right, title and interest in and to the Lease to Assignee as herein provided, including, but not limited to, Assignor's right to receive Lease Payments and other amounts payable by the Lessee thereunder and Assignor's interest in the Equipment; and

WHEREAS, Assignor desires to assign to Assignee, and Assignee desires to purchase (but solely from the proceeds of sale of the Certificates executed and delivered pursuant to the Trust Agreement described below), all of Assignor's right, title and interest in and to the Lease (including, but not limited to, its security interest in the Equipment and its right to receive the Lease Payments) upon the terms and conditions stated below;

WHEREAS, Assignor does not by this Assignment or otherwise delegate its obligations or duties under the Lease, which are retained by Assignor;

NOW, THEREFORE, in consideration of the premises, the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. *Assignment; Payment of Purchase Price.* (a) Assignor hereby assigns to Assignee, its successors and assigns, forever, all of Assignor's right, title, interest, estate, claims and demands (but expressly excluding any of Assignor's obligations or duties under the Lease) as lessor (i) in, to and under the Lease, together with the Schedules attached thereto and any amendments, supplements, documents and other instruments relating thereto, and all rights, powers, privileges, options and other benefits of Assignor as lessor under the Lease, including, but not limited to, (A) the immediate and continuing right to receive and collect all Lease Payments, insurance proceeds, and all other payments and amounts due thereunder (collectively, the "*Assigned Payments*"), (B) the right to make all waivers and agreements and to enter into any amendments relating to the Lease or any provision thereof and (C) the right to take such action upon the occurrence of an event of default or event of nonappropriation under the Lease or an event of default that, with the lapse of time or the giving of notice or both, would constitute an event of default or event of nonappropriation under the Lease; (ii) in and to the Equipment, including, but not limited to, any title thereto and security interest therein now owned or hereafter acquired under the Lease, together with all accessories,

equipment, parts and appurtenances appertaining or attached to any of the Equipment described in the Lease, whether now owned or hereafter acquired, except such thereof as is or remains the property of the Lessee under the Lease, and all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of such Equipment, except such thereof as is or remains the property of the Lessee under the Lease, together with all the rents, issues, income, profits, proceeds and avails therefrom; and (iii) all right, title and interest of Assignor in, to and under the Lease related to the foregoing, subject, however, to the rights of the Lessee under the Lease. All the foregoing rights, titles, interests, property, estate, claims and demands so sold, transferred, delivered and assigned are herein collectively referred to as the "*Assigned Property*." This assignment is absolute and unconditional and is not intended to be merely the grant of a security interest to Assignee.

It is intended that the conveyance of Assignor's right, title and interest in and to the Lease, the Assigned Payments and other Assigned Property pursuant to this Assignment shall constitute a purchase and sale and not a loan for federal and relevant state tax, bankruptcy and other purposes. Nonetheless, as a precaution in the event that, contrary to the intent of the parties hereto, it is contended that Assignor has not sold or absolutely assigned the Lease, the Assigned Payments and the other Assigned Property, but rather has received from Assignee a loan or extension of credit secured by the Lease and the other Assigned Property, with Assignor retaining an ownership interest therein, Assignor hereby assigns, pledges and grants to Assignee a first-priority lien on and security interest in all right, title and interest Assignor now or hereafter acquires in and to the Lease, the Assigned Payments and the other Assigned Property sold, transferred, delivered and assigned by Assignor under this Assignment, as security for the repayment of such ostensible loan or extension of credit, as well as for the full and timely performance by Assignor of each of its obligations hereunder and, in that connection, this Assignment shall also be deemed to be a security agreement within the meaning of the applicable Uniform Commercial Code.

(b) In consideration of the sale, transfer and assignment provided in subparagraph (a) of this Paragraph 1, Assignee has received the net purchase price of the Certificates in the amount of \$1,305,000. Upon receipt thereof, Assignee deposited such proceeds into the Proceeds Fund created pursuant to the Trust Agreement, dated as of the date hereof, between Assignor and Assignee, as trustee (the "*Trust Agreement*"), to be applied as directed in that certain Closing Statement, as defined in and required by the Trust Agreement.

2. *Power of Attorney.* Assignor irrevocably constitutes and appoints Assignee and any present or future officer or agent of Assignee, or the successors or assigns of Assignee, as its lawful attorney with full power of substitution and resubstitution, and in the name of Assignor or otherwise, to collect the Assigned Payments and to sue in any court for such Assigned Payments or any of the Assigned Property, or any part thereof, to withdraw or settle any claims, suits or proceedings pertaining to or arising out of the Lease upon any terms as Assignee in its discretion may deem to be in the best interest of the holders of the Certificates, and to enforce the security interest granted pursuant to the Lease and to take possession of and to endorse in the name of Assignor any instrument for the payment of money received on account of the Assigned Payments or any of the other Assigned Property.

3. *Payments.* Assignor has authorized and directed the Lessee, in writing, to pay to Assignee, in its capacity as Trustee, and its successors and assigns, all Lease Payments due or to become due under the Lease from and after the date of this Assignment by forwarding such payments to U.S. Bank National Association to the following address:

RBK U.S. Bank National Association  
ABA 091000022  
BNF USBANK NA  
Beneficiary Account Number: A/C 173103781824  
Beneficiary Account Address: 777 E. Wisconsin Avenue  
Milwaukee, WI 53202-5300  
OBI Account Name – F/B/O State of Mississippi State Agencies 2020A  
Attn: Wallace Duke

By its signature on that certain Consent to and Acknowledgment of Assignment dated as of March 5, 2020, the Lessee has acknowledged the assignment herein provided and has agreed to pay the Assigned Payments to Assignee when due and payable.

4. *Representations, Warranties and Covenants.* Assignor hereby represents, warrants and covenants to and with Assignee that:

(a) Assignor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with corporate powers and authority to own its properties and carry on its operations as now being conducted.

(b) Assignor has full power, authority and legal right to enter into and perform its obligations under this Assignment and the Lease. The execution, delivery and performance of this Assignment and the Lease have been duly authorized by all necessary action on the part of Assignor, do not require any stockholder approval or the approval and consent of any trustee or holder of any indebtedness or obligation of Assignor or any such required approvals and consents have heretofore been duly obtained, and the foregoing do not contravene any law, governmental rule, regulation, order or ordinance of any governmental entity having jurisdiction over and binding on Assignor or the articles of incorporation or bylaws of Assignor and do not and will not result in any breach of or constitute a default under any indenture, mortgage, contract, agreement or instrument to which Assignor is a party or by which it or its property is bound.

(c) There are no pending or, to the best of Assignor's knowledge, threatened actions or proceedings before any court or administrative agency that will materially adversely affect the condition, business or operation of Assignor or the ability of Assignor to perform its obligations under this Assignment or the Lease.

(d) Immediately prior to the transfer and assignment provided for by this Assignment, Assignor had the right to sell and assign all of its right, title and interest in and to the Lease and all of the other Assigned Property, free and clear of all claims, liens, security interests and encumbrances other than the rights of the Lessee under the Lease in accordance with the terms thereof. This Assignment vests in Assignee full right, title and interest and legal title in and to the Equipment (but, with respect to legal title, only to the extent that Assignor has been or is entitled to become the holder of legal title to the Equipment pursuant to the Lease), the Lease (but specifically excluding the obligations and duties of Assignor under the Lease, which are retained by Assignor), and the right to receive the Assigned Payments and all of the other Assigned Property, in each instance free and clear of all claims, liens, security interests and encumbrances of any kind or character, except the rights of the Lessee under the Lease, and the same shall be and remain free of all claims, liens, security interests and encumbrances arising through any act or omission of Assignor or any person claiming by, through or under it.

(e) Assignor has complied and will comply with, and duly and promptly perform, all of the obligations and duties of Assignor under this Assignment, the Lease and all related documents and instruments.

(f) The original counterpart of the Lease delivered to Assignee herewith constitutes the entire writing, obligation and agreement between Assignor and the Lessee respecting the Equipment, the lease thereof, the payment therefor by the Lessee and the title thereto and security interest therein.

(g) Assignor has not assigned, sold, transferred, pledged or otherwise granted an interest, and hereby covenants that it will not assign, sell, transfer, pledge or otherwise grant an interest, in or to the whole or any part of the Assigned Property sold, transferred, delivered and assigned pursuant to this Assignment, the Trust Agreement and the Lease to anyone other than Assignee, including, but not limited to, the Lease, the Assigned Payments and the Equipment. Assignor will make appropriate notations on its books and records with entries regarding the Lease and the other Assigned Property indicating the entering into of this Assignment.

(h) No event of default or event of nonappropriation has occurred and is continuing under the Lease, and no event has occurred that, with the lapse of time or the giving of notice or both, would constitute an event of default or event of nonappropriation under the Lease. No Lease Payment under the Lease has yet become due and payable or has been paid in advance of its due date.

(i) The term of the Lease does not exceed the reasonably expected useful life of the Equipment.

(j) Assignor will indemnify and hold Assignee, its successors and assigns, harmless from and against all claims, losses, costs and expenses arising from or growing out of (i) the failure of Assignor to keep or perform any of its warranties, covenants or agreements contained in this Assignment or the Lease, and (ii) the ownership, use, or possession of the Equipment.

(k) Assignor has not claimed and does not expect to claim any exclusions, deductions, credits or other benefits (such as depreciation) under the federal tax laws as "owner" of the Equipment for federal tax purposes.

(l) Assignor intends that the transfer and assignment herein contemplated constitute a sale of all right, title and interest of Assignor in and to the Assigned Property, including (without limitation) the Assigned Payments, and not a secured borrowing.

(m) Assignor has marked its records to indicate that the Assigned Property has been sold to Assignee. Assignor will treat the sale of the Assigned Property as a sale for accounting purposes, and the independent certified public accountants for Assignor concur in such treatment. For tax reporting purposes, Assignor will treat the sale from Assignor in a manner consistent with the treatment for accounting purposes.

(n) Except as provided herein, Assignor has no right or obligation to repurchase the Assigned Property from Assignee. Assignor retains no interest whatsoever in the Assigned Property.

(o) Assignor does not transfer the Assigned Property with intent to hinder, delay or defraud any person or entity. Assignor has received equivalent value in exchange for its transfer of the Assigned Property.

(p) There will be no modification of the consideration with Assignee transferred to Assignor in respect of the transfer of the Assigned Property.

(q) Assignor will take no action inconsistent with, and will be estopped from challenging, Assignee's ownership interest of the Assigned Property.

(r) Assignor will not receive any payments with respect to the Assigned Property, other than payment of the purchase price therefor in accordance with Section 1 hereof.

(s) No arrangement exists whereby Assignor is to protect Assignee against (i) the risk of fluctuations in the market value of the Assigned Property or (ii) the risk of nonpayment by Lessee.

(t) Assignor has no right to receive any excess collections with respect to the Lease.

(u) In the event that Assignor ceases to exist as a functional corporation, it covenants that it will arrange for a third party acceptable to the Assignee, to provide periodic invoices to the Lessee, as required by the Lease, at no cost to the Assignee.

5. *Further Assurances.* Assignor, from time to time, at the request of Assignee, and at Assignor's cost and expense, shall execute and deliver such further acknowledgments, agreements and instruments of assignment, transfer and assurance, including, but not limited to, bills of sale for the Equipment, and do all such further acts and things as may be reasonably necessary or appropriate in the opinion of Assignee to give effect to the provisions hereof and to further confirm the rights, titles and interests hereby sold, assigned and transferred to Assignee.

6. *Severability; Rights Cumulative.* If any part of this Assignment shall be contrary to any law that Assignee might seek to apply or enforce or should otherwise be defective, the other provisions hereof shall not be affected thereby but shall continue in full force and effect, to which end they are hereby declared severable. All rights, remedies and powers of Assignee hereunder are irrevocable and cumulative, and not alternative or exclusive, and shall be in addition to all rights, remedies and powers given hereunder, or in or by any other instrument or any other law now existing or hereafter enacted.

7. *Notices.* Any notice required or permitted to be given by Assignor or Assignee to the other shall be deemed to have been given upon the actual receipt thereof or on the third day after it is deposited in the United States mail, certified mail, return receipt requested, with proper postage prepaid, whichever is the earlier, and addressed to the party at such address as shown at the beginning of this Assignment or at such other address as one party shall hereafter furnish to the other in writing.

8. *Headings.* The headings of the paragraphs of this Assignment are for convenience only and shall not be used to interpret or construe this Assignment.

9. *Entirety; Amendments.* This Assignment contains the entire agreement between Assignor and Assignee with respect to the subject matter hereof and supersedes all prior agreements and understandings relating thereto. No other agreements will be effective to change, modify or terminate this Assignment in whole or in part unless such agreement is in writing and duly executed by Assignor and Assignee. No representations, inducements, promises or agreements, oral or otherwise, that are not embodied herein (or any other written instrument or document delivered pursuant hereto or in connection herewith) will be of any force or effect.

10. *Parties Bound.* This Assignment shall be binding on Assignor and its successors and assigns, and shall inure to the benefit of Assignee and its successors and assigns.

11. *Governing Law.* The substantive laws of the State of Mississippi shall govern the validity, construction, enforcement and interpretation of this Assignment and the rights of the parties hereunder.

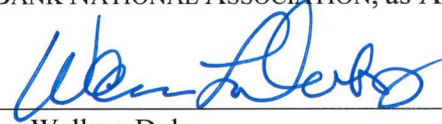
12. *Nonrecourse.* The assignment, sale, transfer and conveyance in this Assignment is agreed to be nonrecourse with respect to the Assignor. Assignor shall have no liability of any nature or kind to Assignee or the owners of any Certificates executed and delivered pursuant to the Trust Agreement with respect to the occurrence of an event of nonappropriation or an Event of Default under the Lease, resulting from the action or the failure to act of the Lessee, whether such default consists of failure to pay monies, breach of covenant or otherwise.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment by one of their respective officers thereunto duly authorized, as of the date first above written.

FIRST SOUTHWEST LEASING COMPANY, as Assignor

By:   
Vickie Hall  
Vice President

U.S. BANK NATIONAL ASSOCIATION, as Assignee

By:   
Wallace Duke  
Vice President

REGISTERED  
R- \_\_\_\_\_

REGISTERED  
\$ \_\_\_\_\_

**PRIVATELY-PLACED LEASE REVENUE CERTIFICATE OF PARTICIPATION  
(MASTER LEASE PROGRAM, SERIES 2020A)**

**Evidencing Proportionate Interests in Lease Payments to be made pursuant to  
a Master Lease Purchase Agreement and Equipment Schedules thereto  
made and entered into by and between**

**THE STATE OF MISSISSIPPI, Represented by and Acting Through  
The State of Mississippi Department of Finance and Administration,  
and**

**FIRST SOUTHWEST LEASING COMPANY**

**NOTICE:** The Certificates have not been registered under the Securities Act of 1933, as amended (the “*Securities Act*”) or registered under the securities laws of any state. In addition, the trust will not be registered under the Investment Company Act of 1940, as amended (the “*1940 Act*”). Neither the Certificates nor any interest therein may be transferred except in compliance with the Securities Act and applicable state securities laws. Neither the trust, the Trustor, the Trustee nor the Lessee is obligated to register or qualify the Certificates or any interest therein under the Securities Act or any other securities law. The initial purchaser of this Certificate is purchasing the Certificates for its own account and it has no present intention of reselling or otherwise redistributing the Certificates. The purchaser and all subsequent holders of the Certificates will not sell or transfer the Certificates to any Person that is not a bank as defined in Section 3(a)(2) of the Securities Act, or (i) who is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act, or (b) a “qualified institutional buyer” within the meaning of Rule 144A promulgated under the Securities Act, each of whom will execute a purchase letter acceptable to the Lessee and the Trustee, which certifies that it is purchasing the Certificates for its own account and not for resale or distribution, and will not sell, convey, pledge or otherwise transfer the Certificates without prior compliance with applicable registration and disclosure requirements of state and federal securities laws.

**DATED DATE**

March 5, 2020

**INTEREST RATE**

1.94%

**MATURITY DATE**

October 15, 2024

**REGISTERED OWNER:**

[Name]

**PRINCIPAL AMOUNT:**

**\*\*One Million Three Hundred Five Thousand and No/100\*\***

**DOLLARS**

THIS IS TO CERTIFY THAT the registered owner specified above is the owner of a participation interest in that certain Series 2020A Master Lease Purchase Agreement (the “Master Lease Agreement”), and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the “Equipment Schedules”, and together with the Master Lease Agreement, the “Lease”), made and entered into by and between First Southwest Leasing Company (“FirstSouthwest Leasing”), as the Lessor, and the State of Mississippi (the “State”), acting by and through the State of Mississippi Department of Finance and Administration, an agency of the State, as the Lessee (“Lessee”) acting on behalf of one or more agencies or departments (each, an “Agency”) and community college districts of the State (each, a “Community College District” or “the District”, and collectively with the Agencies, the “Participating Users”), and in the Lease Payments (the “Lease Payments”) to be made thereunder.

All rights, titles, interests and obligations of FirstSouthwest Leasing in and to the Lease, the Lease Payments and the equipment being purchased or refinanced by Lessee thereunder (the “Equipment”) have

been assigned to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020 between FirstSouthwest Leasing, as the assignor, and the Trustee, as the assignee.

**NEITHER THE LEASE, NOR THE LESSEE'S OBLIGATION TO MAKE LEASE PAYMENTS THEREUNDER, NOR THE CERTIFICATES, ARE A GENERAL OBLIGATION OF THE LESSEE, AND THE FULL FAITH AND CREDIT OF THE LESSEE IS NOT PLEDGED THERETO. THE DISTRIBUTIONS PAYABLE WITH RESPECT TO THE CERTIFICATES ARE PAYABLE SOLELY FROM (I) THE LEASE PAYMENTS AND (II) CERTAIN MONEYS HELD BY THE TRUSTEE UNDER THE TRUST AGREEMENT. THE LEASE PAYMENTS ARE PAYABLE SOLELY FROM FUNDS APPROPRIATED FOR SUCH PURPOSE BY LESSEE TO THE PARTICIPATING USERS, BUT LESSEE IS NOT REQUIRED TO APPROPRIATE OR PROVIDE MONEYS FOR SUCH PURPOSE. IF MONEYS ARE NOT APPROPRIATED BY THE LESSEE TO THE PARTICIPATING USERS FOR ANY FISCAL PERIOD, THE LEASE AND THE USER AGREEMENTS MAY BE TERMINATED IN WHOLE OR IN PART AT THE END OF THE PRECEDING FISCAL PERIOD, AND LESSEE IS NOT REQUIRED TO MAKE THE LEASE PAYMENTS COMING DUE AFTER SUCH TERMINATION WITH RESPECT TO THAT PORTION OF THE LEASE PAYMENTS FOR WHICH MONEYS WERE NOT APPROPRIATED BY LESSEE TO THE PARTICIPATING USERS; HOWEVER, WITH RESPECT TO THE COMMUNITY COLLEGE DISTRICT, ANY FUNDS APPROPRIATED TO THE COMMUNITY COLLEGE DISTRICT IN THE STATE APPROPRIATIONS ALLOCATED TO THAT DISTRICT FOR ITS USE AND SUPPORT.**

The Owner (as defined in that certain Trust Agreement dated as of March 5, 2020, by and among FirstSouthwest Leasing, as the trustor, the Trustee, as the Trustee, and the Lessee and hereinafter referred to as the "Trust Agreement") of this Certificate is entitled to receive certain amounts (the "Distributions") on each April 15 and October 15 (the "Distribution Dates"), commencing April 15, 2020, until the Maturity Date of this Certificate set forth above (the "Maturity Date") or upon the earlier redemption of this Certificate. The total amount of Distributions to be made with respect to this Certificate shall be equal to the Principal Amount of this Certificate set forth above (the "Principal Amount") plus interest with respect to such Principal Amount calculated in the manner prescribed by the Trust Agreement at a per annum rate equal to the interest rate set forth above. Each Distribution shall contain an interest component. The entire Principal Amount of this Certificate shall be included in the final Distribution made on the Maturity Date. Distributions, other than the final Distribution, shall be paid on a Distribution Date (or if any such Distribution Date is not a Business Day (as defined in the Trust Agreement), then on the Business Day next succeeding such Distribution Date) by check or draft mailed by the Trustee to the person in whose name a Certificate is registered on the Register (as defined in the Trust Agreement) at the close of business on the Record Date, and at the address appearing on the Register; provided, however, if an Owner of \$500,000 or more in Principal Amount of Certificates (i) in writing prior to the relevant Record Date, requests the Trustee to make payment of any Distribution by wire transfer, and (ii) reimburses the Trustee in advance for any costs that the Trustee incurs in complying with such request, the Trustee shall make payment on such Certificate in accordance with such Owner's request. "Record Date" shall mean a day (whether or not such day is a Business Day) which is the fifteenth (15th) day prior to the day on which the Distribution is to be made.

Payment of the final Distribution indicated herein shall be made only upon presentation and surrender of this Certificate at a corporate trust office of the Trustee in Brandon, Mississippi, or at the principal corporate trust office of any successor Trustee.

The Trustee has no obligation or liability to the Owners of the Certificates for the payment of the Distributions other than from certain funds established under the Trust Agreement. The Trustee's sole obligations with respect to such payment are to administer, for the benefit of the Owners of the Certificates, the various funds, other than the Rebate Fund (as defined in the Trust Agreement), and accounts established under the Trust Agreement.

The following is a summary of certain provisions of the Trust Agreement pursuant to which this Certificate has been executed and delivered by the Trustee. Copies of the Trust Agreement are on file at the corporate trust agency office of the Trustee, and reference is hereby made to the Trust Agreement and any and all amendments thereto for a description of the security for the Certificates, the nature, extent and manner of enforcement of such security, the rights with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder. All terms of the Trust Agreement and any and all amendments thereto, are incorporated by reference as if set forth herein. By acceptance of this Certificate, the Owner of this Certificate assents to and is bound by the Trust Agreement.

The Trustee, Lessee and FirstSouthwest Leasing may, from time to time and at any time, enter into a Supplemental Trust Agreement (a) for any purpose not inconsistent with the terms of the Trust Agreement or to cure any ambiguity or formal defect or omission in the Trust Agreement which may be defective or inconsistent with any other provision contained in the Trust Agreement, or to make such other provisions in regard to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement and which, in the opinion of the Trustee, shall not adversely affect the interests of the Owners; or (b) to grant to and confer upon the Owners, or the Trustee, for the benefit of the Owners, any additional rights, remedies, powers, authority or security that may be lawfully granted to or conferred upon the Owners or the Trustee. Without the consent of the parties thereto and of the Owners of all Certificates Outstanding, no modification or amendment to the Trust Agreement shall be made which would (i) alter the Distribution amounts or the Distribution Dates with respect to the Certificates or the redemption provisions thereof, (ii) modify the terms of payment or the right to enforce payment of the Certificates or (iii) reduce the required percentage of consenting Owners.

Subject to the foregoing limitations, the Trust Agreement may be modified or amended from time to time and at any time with the written consent of the Trustee, FirstSouthwest Leasing and the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates Outstanding.

Subject to the restriction printed on this Certificate, this Certificate is transferable by the Owner hereof, or by his attorney duly authorized in writing, at a corporate trust office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such transfer, a new fully registered Certificate or Certificates, of the same Maturity Date and authorized denomination or denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof, will be issued to the transferee in exchange therefor.

The Trustee may treat the Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Certificates are subject to optional redemption prior to their Maturity Date in whole or in part, and if in part, by lot based on principal amount being prepaid pursuant to the Lease, commencing April 15, 2023, and on each Distribution Date thereafter in the event the Lessee elects to exercise its prepayment options in accordance with the provisions of the Lease.

The Certificates are subject to extraordinary redemption prior to their Maturity Date, in whole or in part, and if in part, by lot based on principal amount being prepaid pursuant to the Lease, at a price of par plus accrued interest, without premium, (a) on any Distribution Date, in the event the Lessee determines that all or any portion of the funds then remaining on deposit in the Acquisition Fund shall not thereafter be utilized to acquire Equipment subject to a User Agreement and related Equipment Schedule, and directs

the Trustee to apply such funds to the reduction of the principal amount of its future Lease Payments, and (b) on any Distribution Date, in the event that there occurs an event of damage or loss to all or substantially all of the Equipment subject to a User Agreement and related Equipment Schedule, and the Lessee elects to not use the proceeds of any insurance recovery in respect of such damage or loss to replace such Equipment but instead exercises its option to purchase such lost or damaged Equipment.

In the event of a partial redemption, such partial redemption will be made in such a manner that the remaining Lease Payments under the Lease will be sufficient to pay the remaining Distributions on the Certificates.

In the event of a partial redemption, the Trustee shall be entitled to seek and rely on the advice of FirstSouthwest Leasing or such other person as it deems appropriate as to the Principal Amount represented by the Certificates to be called for redemption, based on the amount being prepaid.

The Certificates are subject to mandatory sinking fund redemption on April 15 and October 15 through the Stated Maturity, at a redemption price of par plus interest to the date of such redemption, such amount to be distributed to the Owners thereof in each of the dates and in the respective principal amounts set forth below, subject to a reduction on such date as provided below:

<u>Distribution Date</u>	<u>Sinking Fund Installment</u>
April 15, 2020	\$140,000
October 15, 2020	135,000
April 15, 2021	140,000
October 15, 2021	135,000
April 15, 2022	140,000
October 15, 2022	140,000
April 15, 2023	145,000
October 15, 2023	140,000
April 15, 2024	95,000
October 15, 2024	95,000(1)

(1)Maturity Date.

The Certificates to be redeemed by mandatory redemption shall be selected by lot from among the Certificates of the same maturity.

The principal amount of the Certificates required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced by the principal amount of the Certificates of the same maturity which shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

The Trustee shall cause notice of redemption to be mailed to the Owners of the Certificates at least thirty (30) but not more than forty-five (45) days prior to the date fixed for redemption. If this Certificate is called for redemption and payment is duly provided therefor, as specified in the Trust Agreement, any further payment shall cease to accrue hereon from and after the date fixed for redemption.

Upon the termination of the Lease because of a nonappropriation or the occurrence and continuation of an Event of Default, the Trustee shall immediately accelerate the maturities of all of the Certificates, upon at least fifteen (15) but not more than thirty (30) days' notice. Notwithstanding anything contained herein to the contrary, upon the occurrence of an Event of Default, the Trustee shall, at the direction of 51% of the Owners declare the principal of the Certificates to be immediately due and payable, whereupon the principal of the Certificates and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable.

Following acceleration of the maturities of the Certificates, the Trustee may, upon request of the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates Outstanding and shall, upon receipt by the Trustee of satisfactory security, indemnity and advice of Counsel to the Trustee, exercise any and all rights and remedies under the Lease, provided, however, that the Trustee shall not release the Equipment to a different lessee without the prior consent of the Owners of at least fifty-one percent (51%) in aggregate Principal Amount of Certificates outstanding.

After the payment of fees and expenses incurred by the Trustee in connection with the pursuit of any legal remedies and the performance of any of its other obligations under the Trust Agreement, any moneys collected pursuant to such action shall be applied first, to the Rebate Fund, if any, in an amount equal to the amount set forth in the written instructions of nationally recognized bond counsel or certified public accountants nationally recognized as experts in the calculation of arbitrage rebate in connection with which the Rebate Fund was established; second, distributed ratably to the Owners of the Certificates Outstanding, all installments of the interest component of Distributions then payable with respect to the Certificates, in the order of the payment date of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, without any discrimination or privilege; third, to the extent of available moneys, distributed ratably to the Owners of the Certificates Outstanding, the unpaid Principal Amount and premium, if any, with respect to all Certificates then Outstanding which shall have become due (other than Certificates called for prepayment for the payment of which moneys are held pursuant to the provisions of the Trust Agreement), in the order of their Distribution Dates, with interest on the unpaid Principal Amount at the rates specified therein from the respective dates upon which they become due, and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, together with such interest, then first to the payment of such interest ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the Principal Amount due on such date, to the Owners entitled thereto, without any discrimination or privilege; and finally, to the extent permitted by law, to the payment to the Owners entitled thereto of the unpaid interest on overdue installments of interest ratably, according to the amounts of such interest due on such date, without any discrimination or privilege.

**IN WITNESS WHEREOF**, this Certificate has been executed by the manual signature of a duly authorized signatory of the Trustee.

**U.S. BANK NATIONAL ASSOCIATION**, as Trustee

By: \_\_\_\_\_  
(Authorized Signature)

Authentication Date: \_\_\_\_\_

SPECIMEN

**ASSIGNMENT**

**FOR VALUE RECEIVED,** \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ the within Certificate and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney to transfer the ownership of the within Certificate on the registration books of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

**NOTICE:** The signature on this assignment must correspond with the name as written upon the face of this Certificate in every particular, without alteration or enlargement or any change whatever, and must be guaranteed by a member firm of a Medallion Signature Guarantee Program acceptable to Trustee.

Signature Guarantee:

By: \_\_\_\_\_

\_\_\_\_\_  
Name of Institution

## INFORMATION REQUIRED FOR REGISTRATION

Address of  
Transferee: \_\_\_\_\_

Telephone Number of Transferee: \_\_\_\_\_

Social Security or Tax  
Identification Number of Transferee: \_\_\_\_\_

Transferee is a(n)      Individual\* ☐  
                                 Corporation ☐  
                                 Partnership ☐  
                                 Trust ☐  
                                 Settler's Name: \_\_\_\_\_  
                                 Settler's Social Security Number: \_\_\_\_\_

If the Certificate is to be registered in the names of individual owners, the name, address and social security number of each individual owner must be provided.

**APPENDIX B**  
**INVESTMENT LETTER OF PURCHASER**  
**PURCHASE LETTER**

SPECIMEN

## INVESTMENT LETTER OF PURCHASER

The undersigned, **Trustmark National Bank** (the “Purchaser”), hereby certifies and acknowledges that, in connection with the purchase by it of the \$1,305,000 State of Mississippi Master Lease Program for State Agencies Privately-Placed Lease Revenue Certificates of Participation Series 2020A (the “Certificates”) evidencing proportionate interests in lease payments to be made pursuant to a Master Lease Purchase Agreement (the “Master Lease”) made and entered into by and between the State of Mississippi (the “State”), represented by and acting through the State of Mississippi Department of Finance and Administration, as Lessee (the “Lessee”), and First Southwest Leasing Company, as Lessor (the “Lessor”), and executed and delivered under and secured by a Trust Agreement by and among the Lessor, the Lessee, and U.S. Bank National Association, as trustee (the “Trustee”):

1. The Purchaser has conducted its own investigations, to the extent it deems satisfactory or sufficient, into matters relating to the business, properties, management, and financial position and results of operations of the State in connection with the Master Lease, and the execution and delivery by the Trustee of the Certificates; it has had an opportunity to receive such information, documents and materials concerning the State as it deems to be necessary in connection with its evaluation of the merits and risks of its purchase of the Certificates; and during the course of this transaction and prior to the purchase of the Certificates it has been provided with the opportunity to ask questions of and receive answers from the State or its representatives concerning the terms and conditions of the State’s Master Lease Program and the Master Lease, and the offering of the Certificates, and to obtain any additional information needed in order to verify the accuracy of the information obtained.

2. The Purchaser has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal obligations, and is capable to evaluate the risks and merits of the investment represented by the purchase of the Certificates.

3. The Purchaser is aware that certain economic and political variables could affect its security in the Certificates and the Purchaser is able to bear the economic risks of its purchase of the Certificates.

4. The Purchaser acknowledges and represents that it has not sought from Butler Snow LLP (“Special Counsel”) or the Special Assistant Attorney General of the State of Mississippi (“Lessee’s Counsel”) or received from Special Counsel or Lessee’s Counsel, or looked to or relied upon Special Counsel or Lessee’s Counsel for any information with respect to the State or its financial condition and that Special Counsel and Lessee’s Counsel have no responsibility for furnishing such information.

5. The Purchaser is either (i) an “accredited investor” within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended (the “Act”) or (ii) a “qualified institutional buyer” as defined in Rule 144A of the Act.

6. The Purchaser hereby certifies that it is purchasing the Certificates for its own account as evidence of a privately-placed and negotiated sale of the Certificates and not for resale at a profit, and that it is its present intention to hold the Certificates to maturity or earlier redemption in accordance with Rule G-34 of the Municipal Securities Rulemaking Board, but subject, nevertheless, to the disposition of the Certificates being at all times within the control of the undersigned and that the Certificates will not be sold in contravention of the Securities Act of 1934, as amended, or in contravention of the securities laws of any state.

7. While it has no present intention to sell or otherwise dispose of all or any part of the Certificates purchased by it, the Purchaser assumes responsibility for disclosing all material information in compliance with all applicable federal and state security laws in the event of its resale of the Certificates.

8. The Purchaser understands that the portion of each Lease Payment designated as interest in the Lease and the allocable portion thereof distributable in respect of each Certificate (herein referred to as "interest distributable on Certificates"), is intended to be excludable pursuant to Section 103(a) of the Internal Revenue Code from the gross income of the owners thereof for Federal income tax purposes, and (b) such Lease Payment Interest, and such interest distributable on Certificates, do not constitute items of tax preference, within the meaning of and to the extent provided in Section 57(a) of the Internal Revenue Code, for purposes of the Federal alternative minimum tax on individuals and corporations

**IN WITNESS WHEREOF**, the undersigned has hereunto set its hand as an authorized representative of Trustmark National Bank as of this 5th day of March, 2020.

**Trustmark National Bank**

By:   
J. Trent Marchman  
Vice President

## CONSENT TO AND ACKNOWLEDGMENT OF ASSIGNMENT

As of March 5, 2020

Ladies and Gentlemen:

**THE STATE OF MISSISSIPPI**, represented by and acting through its Department of Finance and Administration ("Lessee"), hereby acknowledges that (i) for the purpose of meeting its obligations under that certain Series 2020A Master Lease Purchase Agreement (the "Agreement"), made and entered into by and between **FIRST SOUTHWEST LEASING COMPANY**, a corporation duly organized and existing under the laws of the State of Delaware ("Assignor"), and Lessee, and to make available to the Lessee the moneys required to pay the costs of the equipment (the "Equipment") leased thereunder, (a) Assignor will cause to be executed and delivered, pursuant to that certain Trust Agreement, dated as of March 5, 2020 (the "Trust Agreement"), made and entered into by and among U.S Bank National Association, as Trustee (the "Assignee"), the Assignor and the Lessee, those certain Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) in the aggregate principal amount of \$1,305,000 (the "Certificates"), and (b) effective as of the date set forth above, Assignor has assigned all of its right, title and interest in the Lease, including without limitation the right to receive all Lease Payments thereunder, and the security interest in the Equipment granted to Assignor pursuant thereto to Assignee, as Trustee pursuant to the Trust Agreement, at the address described below and (ii) Lessee shall remit all Lease Payments to Assignee at the address described below:

U.S. Bank National Association  
Global Corporate Trust  
P.O. Box 4026  
Brandon, Mississippi 39047  
Attn: Wallace Duke  
Phone: 601.383.5847

OR BY WIRE AS FOLLOWS:

RBK U.S. Bank National Association  
ABA 091000022  
BNF USBANK NA  
Beneficiary Account Number: A/C 173103781824  
Beneficiary Account Address: 777 E. Wisconsin Avenue  
Milwaukee, WI 53202-5300  
OBI Account Name – F/B/O State of Mississippi Master Lease Program Series 2020A  
Attn: Wallace Duke

ACKNOWLEDGED as of the date first set forth above:

**THE STATE OF MISSISSIPPI**, represented by and acting through its Department of Finance and Administration.

By: \_\_\_\_\_

  
Liz Welch  
Interim Executive Director

## ARBITRAGE AND TAX CERTIFICATE

I, the undersigned, do hereby certify that I am a duly elected or appointed or authorized official of the **STATE OF MISSISSIPPI**, represented by and acting through its Department of Finance and Administration (“**Lessee**”), that I hold the office set forth below my signature, and that in my official capacity as such official, I am familiar with the execution and delivery, by Lessee of (i) that certain Series 2020A Master Lease Purchase Agreement (the “**Master Lease Agreement**”), and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the “**Equipment Schedules**”, and together with the Master Lease Agreement, the “**Lease**”), each made and entered into by and between **First Southwest Leasing Company**, a corporation duly organized and existing under the laws of the State of Delaware (“**FirstSouthwest Leasing**”), and the Lessee, (ii) two (2) Participating User Agreements (the “**User Agreements**”), each dated as of March 5, 2020, each by and between the Lessee and the respective Participating Users described therein, and (iii) that certain Trust Agreement, dated as of March 5, 2020 (the “**Trust Agreement**”), made and entered into by and among **U.S. Bank National Association**, as Trustee (the “**Trustee**”), FirstSouthwest Leasing and the Lessee.

FirstSouthwest Leasing has advised the Lessee that for the purpose of meeting its obligations under the Lease, and to make available the moneys required to pay the costs of the Project described herein, it has assigned to the Trustee, pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020, between FirstSouthwest Leasing, as assignor, and the Trustee, as assignee, all of its rights, title and interest in, and obligations under, the Lease, including its security interest in the Equipment as described therein, and that simultaneously with the execution and delivery by Lessee of the Lease, the Trustee is causing the execution and delivery of the \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program, Series 2020A) (the “**Certificates**”).

This certificate (this “**Tax Certificate**”) is being delivered pursuant to section 103 and sections 141-148 of the Internal Revenue Code of 1986, as amended (the “**Code**”) and the Treasury Regulations promulgated thereunder (the “**Regulations**”) in connection with the execution and delivery of the Lease by Lessee. Lessee recognizes that this Tax Certificate will be relied upon by Butler Snow LLP, as Special Tax Counsel (herein so referred to), in rendering its opinion pertaining to the exclusion of the interest component of the Series 2020A Aggregate Lease Payments (the “**Lease Payments**”) from the gross income of the Registered Holders for federal income tax purposes. Pursuant to Section 5.6 of the Lease and pursuant to Section 1.148-2(b)(2) of the Regulations, the Lessee makes and enters into the following representations and covenants.

**SECTION 1. DEFINITIONS.** Capitalized terms used herein, and not otherwise defined herein, shall have the meanings set forth in the Lease or the Trust Agreement. Terms in quotation marks used herein, and not otherwise defined herein, shall have the same meanings as when used in the Code or Regulations.

### **SECTION 2. REPRESENTATIONS.**

**A. Purpose.** Under the Lease, the Lessee is required to lease purchase the Equipment from FirstSouthwest Leasing and in payment therefor to make Lease Payments, each such payment comprising an interest component and a principal component, on the dates and in the amounts set forth in Exhibit B to the Lease, subject to the terms and conditions of the Lease. It is Lessee’s intention that the Lease be treated as an installment purchase debt obligation (the “**Lessee Obligation**”) for purposes of federal income taxation and that the interest component of each Lease Payment be excluded from the gross income of the recipients thereof for such purposes. The Certificates are being delivered on the date hereof (the “**Delivery Date**”) for the purpose of providing funds to the Trustee (i) for the purchase or refinancing of the Equipment, and (ii) to pay certain costs of the transaction (the “**Project**”). The Lessee understands that for federal income tax purposes, the trust established under the Trust Agreement is to be disregarded,

that each holder of a Certificate is to be treated as the direct owner of an undivided interest in all of the rights, title and interest of FirstSouthwest Leasing under the Lease, and that the proceeds of sale of the Certificates are, for purposes of federal income taxation, to be treated as the sale proceeds of the Lessee Obligation (the “**Sale Proceeds**”).

**B. Single Issue.** The Lessee has not issued and does not expect to issue other obligations which have been or will be: (a) sold within 15 days of the earlier of the Delivery Date or such date as might have arisen as of which the Lessee became contractually obligated to execute into and deliver the Lease (the “**Sale Date**”); (b) sold pursuant to the same plan of financing with the Lease; and (c) reasonably expected to be paid from substantially the same source of funds as will be used to pay the Lease Payments; unless the sale of such other obligations is permitted by the Code and the Regulations.

**C. No Replacement; Average Maturity.** The Lessee has available to it no funds (other than the proceeds of sale of the Certificates) which were otherwise to be used as a source of financing of the Project. None of the monies to be made available under the Lease are to be used to provide working capital to the Lessee; rather, all such proceeds not applied to the payment of costs of the transaction or the capitalized interest are being expended to pay capitalizable costs of the Equipment. The weighted average maturity of the Lessee Obligation (computed using the principal amortization schedule implicit in Exhibit B to the Lease) is 2.802 years which is not later than 120 percent of the weighted average life of the Equipment financed or refinanced by the Certificates. Thus, the Lease is not expected to be outstanding longer than the period reasonably necessary to accomplish its governmental purpose.

**D. Statement as to Facts, Estimates and Circumstances.** The facts and estimates set forth in this Tax Certificate on which the Lessee’s expectations as to the amount and use of the Gross Proceeds of the Lease are based are made to the best of the knowledge and belief of the undersigned official of the Lessee. The undersigned believes that the Lessee’s expectations are reasonable.

**E. Responsible Person.** The undersigned is an officer of the Lessee responsible for the execution and delivery of the Lease, and has made due inquiry with respect to and is fully informed as to the matters set forth herein.

**F. Lease Not Hedge Bonds.** As of the Delivery Date, the Lessee reasonably expects that (i) at least 85 percent of the Sale Proceeds will be used to carry out the governmental purpose of the Lease within the three year period beginning on the Delivery Date, and (ii) not more than 50 percent of the Sale Proceeds will be invested in Nonpurpose Investments having substantially guaranteed yields for four years or more.

**SECTION 3. REASONABLE EXPECTATIONS OF LESSEE AS TO FACTS, ESTIMATES AND CIRCUMSTANCES.** The Lessee makes the following representations and statements of fact and expectation on the basis of which it is expected that the Sale Proceeds and other gross proceeds of the Lease will not be used in a manner that will cause the Lease to comprise “arbitrage bonds” within the meaning of section 148 of the Code. In making these representations and statements, and reaching its conclusions, with regard to the marketing of the Certificates, the Lessee has relied exclusively upon advice provided to it by FirstSouthwest Leasing and by Hilltop Securities Inc., Lessee’s financial advisor.

**A. Funds.** The following funds, accounts and subaccounts are established under the Trust Agreement:

1. Acquisition Fund;
2. Proceeds Fund;
3. Certificate Payment Fund; and
4. Rebate Fund

**B. Application of Sale Proceeds.**

**1. Sale Proceeds; No overissuance.** First Southwest Leasing has advised the Lessee that the Sale Proceeds (which equal the net amount received by the Trustee from the sale of the Certificates) is 1,305,000, which represents the par amount of \$1,305,000, less an underwriter's discount of N/A, plus original issue premium of N/A. On the Delivery Date, all of the Sale Proceeds will be deposited into the Proceeds Fund, to be transferred or disbursed on said day for the purposes described below. Based upon the expectations of the Lessee with respect to investment earnings on the Sale Proceeds and other amounts available or to become available to it for purposes of acquisition of the Equipment or other costs of the Project and for currently refunding the Prior Certificates, the Lessee believes the Sale Proceeds do not exceed the amount necessary for the purposes set forth in Section 2(a) hereof by more than \$100,000.

**2. Costs of Issuance.** An amount of the Sale Proceeds equal to \$27,468 (\$27,318 costs of issuance plus a rounding amount of \$150) will be disbursed from the Proceeds Fund to First Southwest Leasing on the Delivery Date for payment of FirstSouthwest Leasing's fees and other costs of issuance.

**3. Acquisition Fund.** An amount of the Sale Proceeds equal to \$1,277,532 will be deposited on the date hereof to the Acquisition Fund. That amount will be disbursed to the Vendors or reimbursed to the sublessees to pay the costs of the Equipment as described in the Lease on or before March 5, 2023.

**C. Accrued Interest.** No Sale Proceeds representing accrued interest will be deposited into the Certificate Payment Fund and credited against the obligation of the Lessee to all or a portion of the interest component of one or more Lease Payments.

**D. Reserve Fund.** No Reserve Fund has been established for this series.

**E. Investment Proceeds.** Investment earnings earned on amounts on deposit in the Acquisition Fund shall be retained therein until the amount in the Acquisition Fund is sufficient to pay the Equipment Cost, and shall thereafter remain in the Series 2020A Acquisition Fund until a determination is made by Lessee that such excess investment earnings will not be required to make payments of arbitrage rebate to the federal government. After a determination has been made that any excess investment earnings shall not be required to pay arbitrage rebate, the excess shall be used to make the Lease Payments pursuant to the Lease and the Participating Users shall be credited with amounts so applied in such manner as the Lessee shall determine to be appropriate. Investment earnings on any other fund under the Trust Agreement shall be deposited and applied as described therein.

**F. Flow of Funds.**

**1. Acquisition Fund.** Amounts in the Acquisition Fund are to be applied to the Costs of the Equipment upon receipt of appropriate documentation from the Lessee. Within six months after the date hereof, it is reasonably expected that an amount in excess of 5% of the "Net Sales Proceeds" of the Certificates will be spent (or binding contracts entered into with third-parties) for the acquisition of the Equipment. After entering into such agreements to acquire the Equipment, the Lessee reasonably expects to proceed diligently with the acquisition of the Equipment and the expenditure of the proceeds of the Lease, and that, other than amounts held in the Certificate Payment Fund, all proceeds of the Lease will be expended on the Project within three years of the date hereof. *Notwithstanding the foregoing, the Lessee covenants to comply with the arbitrage rebate requirements of the Code, including, without limitation, section 148(f) of the Code.*

**2. Bona Fide Debt Service Fund.** On the Delivery Date, a portion of the Sale Proceeds, representing the accrued interest, if any, as well as proceeds to be applied to the payment of capitalized interest under the Lease (if any) will be deposited into the Certificate Payment Fund. Thereafter, all Lease Payments, payments of the Purchase Option Price, certain earnings, if any, on Funds, and certain other monies are to be deposited into the Certificate Payment Fund. On each Distribution Date, the Trustee is to disburse the scheduled Distributions to the Registered Owners.

The Certificate Payment Fund will be used primarily to achieve a proper matching of revenues of Lessee and debt service under the Lease within each year and such Fund will be depleted at least once a year except for a reasonable carryover amount not to exceed the greater of (i) one year's earnings on the Certificate Payment Fund, or (ii) one-twelfth of annual debt service under the Lease. If any funds are or will be invested in an investment contract, the following requirements will be met

- a) at least three bids on any investment contract from persons other than those interested in the issue will be received;
- (b) the yield on the investment contract will be at least equal to the yield offered under the highest bid received from a non-interested party; and
- (c) the yield on the investment contract will be at least equal to the yield offered on similar obligation under similar investment contracts.

**G. No Other Funds.** Other than the Proceeds Fund, the Certificate Payment Fund, the Acquisition Fund, and the Rebate Fund, the Lessee has not created or established or caused to be created or established and is not aware of the creation or establishment on its behalf of, and will not create or establish, any sinking fund or other similar fund with respect to the Lease or the Certificates. No portion of the amounts received from the delivery of the Lease and the Certificates will be used as a substitute for any other funds which were otherwise to be used as a source of financing for the acquisition of the Equipment, and which have been or will be used to acquire, directly or indirectly, investment property producing a yield in excess of the yield on the Lease.

**H. Compliance with Reimbursement Regulations.** Except as otherwise provided under applicable Treasury Regulations, to the extent proceeds of the Lease would otherwise be used to reimburse the Lessee for expenditures paid prior to the Delivery Date, such proceeds shall be so used only if the Lessee: (i) no later than sixty (60) days after the date the expenditure was originally paid, declared a reasonable intention to reimburse the expenditure with proceeds of a borrowing, and (ii) within 18 months after the later of the date of the original expenditure or the date the Project is placed in service, but in no event more than 3 years after the original expenditure was paid, will make a reimbursement allocation; provided that no such prior expenditure will be reimbursed that was not a capital expenditure. No proceeds used for such reimbursement will be used in a manner that causes them to be "replacement proceeds" of the Lease or of any other issue of governmental obligations.

**SECTION 4. NO FEDERAL GUARANTEE.** The Lessee covenants that not more than five percent of the proceeds of the Lease will be invested in federally insured deposits or accounts or otherwise be invested in any obligation the payment of principal or interest on which is (in whole or in part) a direct obligation of or guaranteed by the United States (or any agency or instrumentality thereof). Notwithstanding the foregoing, but subject to the provisions of the Lease, the Trust Agreement and applicable law, proceeds may be invested in any investment guaranteed by the following agencies of the United States: (a) the Federal Housing Administration; (b) the Veterans Administration; (c) the Federal National Mortgage Association; (d) the Federal Home Loan Mortgage Corporation; and (e) the Government National Mortgage Association. Moreover, proceeds of the Lease may be invested without regard to the restriction (a) during an initial temporary period until such proceeds are needed for the Project; (b) in the

Certificate Payment Fund; (c) in obligations issued by the United States Treasury; or (d) in obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511(a) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

## **SECTION 5. RESERVED.**

**SECTION 6. RESTRICTION TO GOVERNMENTAL USE.** The Lessee does not expect to and will not use or permit the use of any portion of the Equipment in such manner that (i) an amount exceeding 10% of the sales proceeds of the Lease is to be used directly or indirectly in any activity or activities that constitute private business use under section 141(b)(6) of the Code by any person, or (ii) an amount exceeding 5% of the sales proceeds of the Lease is to be used directly or indirectly to make or finance loans to any person other than a Governmental Unit; provided further that at least one half of the private business use permitted by clause (i) shall be neither (A) disproportionate related business use, nor (B) private business use not related to the government use of such proceeds. In making this covenant, the Lessee recognizes that arrangements giving rise to “use” include, but are not limited to, those transferring substantial benefits and burdens of ownership of the Equipment, leases of all or portions of the Equipment, management and other service contracts relating to the Equipment and not satisfying the safe-harbor provisions of Revenue Procedure 97-13, and take or pay, full requirements and similar contracts for the purchase of output of the Equipment. The Lessee covenants to obtain an opinion of Bond Counsel as to the continuing exclusion from gross income of the interest component of the Lease Payments for federal income tax purposes in the event that the use of all or any portion of the Equipment changes or is to be changed in a manner that would violate the limitations described in this Section 6.

For purposes of this Section 6, any incidental uses of the Equipment may be disregarded to the extent that these uses do not involve the use of more than 2.5% of the proceeds of the issue. A use may be treated as “incidental” only if:

- (i) the use does not involve the transfer to the nongovernmental user of possession and control of the Equipment;
- (ii) the use by the nongovernmental person is not related to any other use of the Equipment by the same person that does not qualify under clause (i) immediately above; and
- (iii) the aggregate amount of incidental uses of the Equipment does not involve the use of more than 2.5% of the proceeds of the Lease.

**SECTION 7. INFORMATION REPORTING.** The Lessee has covenanted that it will file, or cause to be filed, Internal Revenue Service Form 8038-G in connection with the delivery of the Lease.

**SECTION 8. AMENDMENTS.** This Tax Certificate sets forth the information, representations, and procedures necessary in order for Special Tax Counsel to render its opinion regarding the exclusion of the interest component of Lease Payments from the gross income of the Registered Holders for purposes of federal income taxation and may be amended or supplemented from time to time to maintain such exclusion only with the approval of Special Tax Counsel.

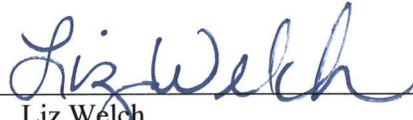
Notwithstanding any other provision herein, the covenants and obligations contained herein may be and shall be deemed modified to the extent the Lessee secures an opinion of Special Tax Counsel that any action required hereunder is no longer required or that some further action is required in order to maintain the exclusion of the interest component of Lease Payments from gross income for purposes of federal income taxation.

**SECTION 9. SUPPLEMENTATION OF THIS TAX CERTIFICATE.** The Lessee understands the need to supplement this Tax Certificate periodically to reflect further developments in the federal income tax laws governing the exclusion from federal gross income of the interest component of Lease Payments and will periodically seek the advice of its own bond counsel as to the propriety of seeking the review of and supplements to this Tax Certificate from Special Tax Counsel.

Dated: March 5, 2020.

**THE STATE OF MISSISSIPPI, represented by and  
acting through its Department of Finance and  
Administration**

By: \_\_\_\_\_



Liz Welch  
Interim Executive Director

## CLOSING CERTIFICATE OF LESSEE

I, the undersigned, do hereby certify that I am a duly elected or appointed or authorized official of the **STATE OF MISSISSIPPI**, represented by and acting through its Department of Finance and Administration (the "Lessee"), that I hold the office set forth below my signature, and that I am hereby executing and delivering this certificate for the benefit of all persons interested in (i) that certain Series 2020A Master Lease Purchase Agreement (the "Master Lease Agreement"), and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the "Equipment Schedules", and together with the Master Lease Agreement, the "Lease"), made and entered into by and between **First Southwest Leasing Company**, a corporation duly organized and existing under the laws of the State of Delaware ("Lessor"), and Lessee, (ii) those certain Participating User Agreements, each dated as of March 5, 2020, by and between Lessee and the respective Participating Users therein, and (iii) that certain Trust Agreement, dated as of March 5, 2020 (the "Trust Agreement"), made and entered into by and among **U.S. Bank National Association**, as trustee (the "Trustee"), the Lessor and the Lessee. The Lease, the Participating User Agreements, the Trust Agreement, and all other documents, certificates or instruments executed or delivered by the Lessee in connection therewith are referred to herein collectively as the "Financing Documents." Terms defined in the Lease are used in this certificate with the same meanings as in the Lease. I do hereby further certify that:

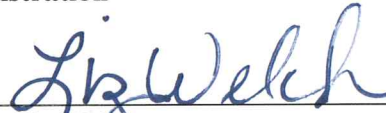
1. I am familiar with and have personal knowledge of the matters hereinafter stated.
2. The Lessee is a sovereign State of the United States of America as defined in section 103(c) of the Internal Revenue Code of 1986, as amended.
3. Each person signing the Financing Documents to which the Lessee is a party, is a duly elected or appointed, qualified and acting officer of the Lessee holding the office set forth below such person's signature, and each such person's signature appearing thereon is true and genuine.
4. To the best of my knowledge, (i) the representations of the Lessee in the Financing Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (ii) the Lessee has complied with all terms on its part to be performed or satisfied by it under the Financing Documents, at or prior to the date hereof, and (iii) the Financing Documents remain in full force and effect and no default or breach, or other event that, with the giving of notice or the passage of time or both, would become a default or breach, has occurred thereunder.
5. Each of the Financing Documents has been duly executed and delivered by or on behalf of the Lessee and constitutes a legal, valid and binding obligation of the Lessee enforceable in accordance with its terms.
6. Except as have been obtained and are in full force and effect as of the date hereof, no governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery by the Lessee of the Financing Documents or the acquisition of the Equipment.
7. To the best of my knowledge no litigation is pending or threatened in any court to restrain or enjoin the execution or delivery of the Financing Documents or the payment of the Aggregate Lease Payments, or in any way contesting or affecting the validity of the Financing Documents, or contesting the powers of the Lessee or contesting the authorization of the Financing Documents or which, if adversely determined, will have a material, adverse effect on the ability of the Lessee to perform its obligations under the Financing Documents.

8. The Lessee will prepare or cause to be prepared and will file or cause to be filed a Form 8038-G in the manner and within the time provided by Section 149(e) of the Internal Revenue Code of 1986, as amended.
9. The Federal Taxpayer Identification number of Lessee is "64-6000749".

**EXECUTED** as of March 5, 2020.

**THE STATE OF MISSISSIPPI, represented by and  
acting through its Department of Finance and  
Administration**

By: \_\_\_\_\_



Liz Welch  
Interim Executive Director

## INCUMBENCY CERTIFICATE OF LESSOR

I, Hill A. Feinberg, do hereby certify that I am the duly elected or appointed and acting Chairman and Chief Executive Officer of First Southwest Leasing Company ("FirstSouthwest Leasing"), and that I have custody of the records of such company. In connection with the financing and refinancing by the **State of Mississippi**, represented by and acting through its Department of Finance and Administration (the "Lessee"), of certain equipment (the "Equipment") pursuant to that certain Master Lease Purchase Agreement (Master Lease Program, Series 2020A) (the "Lease"), made and entered into by and between FirstSouthwest Leasing, as the Lessor, and the Lessee, I do further certify that:

1. FirstSouthwest Leasing is a corporation duly organized and validly existing under the laws of the State of Delaware, with all requisite power and authority to own its properties and carry on its business as now being conducted.

2. The following named person holds the office appearing below and the signature appearing opposite her name is her true and genuine signature:

OFFICE	NAME	SIGNATURE
Vice President	Vickie Hall	

The above-named person shall serve in such capacity until such time as her successor shall have been appointed.

3. The person listed in Paragraph 2 hereof has the authority on behalf of FirstSouthwest Leasing to execute and deliver all documents and certificates required to be executed in connection with (i) the Lease; (ii) the assignment of the Lease by FirstSouthwest Leasing to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020, (iii) that certain Trust Agreement, dated as of March 5, 2020, made and entered into by and among the Trustee, FirstSouthwest Leasing and the Lessee, and (iv) the execution and delivery of those certain \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program, Series 2020A) in connection therewith.

**IN WITNESS WHEREOF**, I have duly executed this certificate as of March 5, 2020.

  
Hill A. Feinberg  
Chairman and Chief Executive Officer

**CERTIFICATE OF  
FIRST SOUTHWEST LEASING COMPANY**

I, the undersigned officer of FIRST SOUTHWEST LEASING COMPANY (“FirstSouthwest Leasing”), do hereby certify in connection with the execution, delivery and performance by FirstSouthwest Leasing of (i) that certain Master Lease Purchase Agreement (Master Lease Program, Series 2020A) (the “Lease”), dated as of March 5, 2020, made and entered into by and between FirstSouthwest Leasing, as the Lessor, and the State of Mississippi, represented by and acting through its Department of Finance and Administration (“Lessee”), (ii) that certain Absolute Assignment Agreement, dated as of March 5, 2020 (the “Assignment”), made and entered into between FirstSouthwest Leasing, as Assignor, and U.S. Bank National Association, as Assignee, and (iii) that certain Trust Agreement dated as of March 5, 2020 (the “Trust Agreement”), made and entered into by and among U.S. Bank National Association, as trustee (the “Trustee”), FirstSouthwest Leasing, as trustor, and the State of Mississippi, represented by and acting through its Department of Finance and Administration, and all related documents and agreements to which FirstSouthwest Leasing is a party (together with the Lease, the Assignment and the Trust Agreement, the “Financing Documents”) as follows:

1. FirstSouthwest Leasing is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware.
2. FirstSouthwest Leasing is qualified to transact business as a foreign corporation in all states in which it is required to do so, and is in good standing in such states, including, without limitation, the State of Mississippi.
3. FirstSouthwest Leasing has the corporate authority to conduct its business as now conducted and to execute and perform its obligations under the Financing Documents.
4. All necessary action has been taken to authorize the execution, delivery and performance of the Financing Documents.
5. The Financing Documents have been duly executed and delivered by FirstSouthwest Leasing and constitute the valid and legally binding obligations of FirstSouthwest Leasing, enforceable against FirstSouthwest Leasing in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and the exercise of judicial discretion in accordance with general principles of equity.
6. The execution and delivery of, and the performance of the obligations under, the Financing Documents (a) will not violate FirstSouthwest Leasing’s corporate charter or bylaws, (b) will not violate or result in the material breach of the provisions of, or constitute a material default under, any agreement to which FirstSouthwest Leasing is a party, including, without limitation, mortgages, deeds of trust, promissory notes, and other instruments binding upon FirstSouthwest Leasing, (c) will not conflict with or result in the breach of any court decree or order of any governmental body applicable to FirstSouthwest Leasing, and (d) will not violate any law or regulation applicable to FirstSouthwest Leasing or the Financing Documents.
7. FirstSouthwest Leasing has received full and fair consideration for the execution and performance of its obligations under the Financing Documents.

8. There are no oral or written modifications of or amendments to the Financing Documents and there has been no waiver of any of the provisions of the Financing Documents, by actions or conduct of FirstSouthwest Leasing or otherwise.
9. FirstSouthwest Leasing maintains no right to future payment or other consideration from the Trustee or the Lessee under the Financing Documents. FirstSouthwest Leasing has no reversionary rights in the Trust Estate (as such term is defined in the Trust Agreement), the Financing Documents or any of the property leased thereunder. FirstSouthwest Leasing neither has, nor maintains any claim of right against the Lessee or the Trustee.
10. Financing statements and the Lease are in the appropriate form for filing, and have been filed or are in the process of being filed, in the applicable jurisdictions and offices in which they are required to be filed to perfect security interests in those items included within the Trust Estate, such perfection may be accomplished by such filings and the Financing Documents, no other filings except as noted in paragraph 11 below are required in order to perfect security interests in items included within the Trust Estate, and no item included within the Trust Estate will be acquired by the Lessee or FirstSouthwest Leasing, as the case may be, after the commencement of a case by or against the Lessee or FirstSouthwest Leasing, as the case may be, under the Federal Bankruptcy Code. The continuing perfection of the security interest in the Trust Estate may require the proper filing of a continuation statement on or before the fifth anniversary of the preceding filing with respect to the Trust Estate.
11. Title to the Equipment (as defined in the Financing Documents) will be registered in the name of the respective districts that are subleasing the Equipment from the Lessee, in all appropriate offices in the State of Mississippi or other applicable governmental body, and any registration, notices or filings with respect to, or other evidences of, the interests of the Trustee in any such items of the Equipment which are required to be made under the laws of the State of Mississippi or the United States of America have or will be made.
12. There is no litigation or administrative proceedings pending or, to my knowledge after due inquiry, threatened before any court or administrative body against FirstSouthwest Leasing or its properties which, if adversely determined, would adversely affect the ability of FirstSouthwest Leasing to execute, deliver and perform its obligations under the Financing Documents.
13. Except as have already been received, taken or made, no consent, approval, authorization or other action by, or filing with, any governmental authority is required in connection with the execution and delivery by FirstSouthwest Leasing of the Financing Documents.
14. To my knowledge after due inquiry, no filing relating to FirstSouthwest Leasing has been made by or against FirstSouthwest Leasing under Title 11, United States Code, Section 101 et seq. or under any applicable state statute relating to bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally.

15. FirstSouthwest Leasing has the right to transfer and assign the Trust Estate to the Trustee, and no transfer or assignment of the Trust Estate or any item contained in the Trust Estate has been made by FirstSouthwest Leasing except to the Trustee under the Assignment.

**IN WITNESS WHEREOF**, I have hereunto set my hand as of March 5, 2020.

**FIRST SOUTHWEST LEASING COMPANY**

By:   
Vickie Hall  
Vice President

STATE OF MISSISSIPPI

COUNTY OF RANKIN

)  
)  
)

### TRUSTEE'S CLOSING CERTIFICATE

The undersigned officer of **U.S. Bank National Association**, as trustee (the "Trustee"), hereby certifies as follows:

1. That all capitalized terms used in this Certificate, including this paragraph, have the same meanings defined for and assigned to them in that certain Trust Agreement, dated as of March 5, 2020 (the "Trust Agreement"), made and entered into by and among the Trustee, First Southwest Leasing Company ("FirstSouthwest Leasing") and the State of Mississippi, represented by and acting through its Department of Finance and Administration ("Lessee"), in connection with the delivery of those certain \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program, Series 2020A) evidencing participation interests in that certain Series 2020A Master Lease Purchase Agreement (the "Master Lease Agreement"), and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the "Equipment Schedules", and together with the Master Lease Agreement, the "Lease"), each made and entered into by and between FirstSouthwest Leasing and the Lessee. Pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020 (the "Assignment"), entered into between FirstSouthwest Leasing, as Assignor, and the Trustee, as Assignee, FirstSouthwest Leasing has transferred all of its right, title and interest in and to the Lease to the Trustee except for its obligations and duties thereunder.

2. That the Trust Agreement and the Assignment (collectively being referred to herein as the "Financing Documents") have each been properly executed and delivered by the person identified in Section 4 below, and such person is a duly qualified officer of the Trustee having proper, lawful authority to execute and deliver the Financing Documents and to bind the Trustee thereto.

3. That the execution and delivery and performance of its obligations under the Financing Documents have been authorized by and are in full conformity with the terms and requirements of all corporate documents of the Trustee governing the same.

4. That the following person is authorized to authenticate the Certificates, and the signature appearing opposite his name and title is a true and correct specimen of his signature:

Name

Title

Specimen Signature

Wallace Duke

Vice President




5. The purchase price for the Certificates, as provided in the Closing Statement, has been received, and such moneys have been deposited as provided in the Closing Statement and the Trust Agreement.

6. A single Certificate, dated March 5, 2020, and numbered R-1, has this day been authenticated and delivered to the purchaser thereof, as set forth in the Closing Statement.

IN WITNESS WHEREOF, the undersigned has executed this certificate on March 5, 2020.

**U.S. BANK NATIONAL ASSOCIATION**, as Trustee

By:   
Name: Connie JACO  
Title: Vice President



**U.S. BANK NATIONAL ASSOCIATION  
ASSISTANT SECRETARY CERTIFICATE**

I, Natasha M. Knack, an Assistant Secretary of U.S. Bank National Association, hereby certify that the following is a true and exact extract from the Bylaws of U.S. Bank National Association, a national banking association organized under the laws of the United States (the "Association").

**ARTICLE VI.  
CONVEYANCES, CONTRACTS, ETC.**

All transfers and conveyances of real estate, mortgages, and transfers, endorsements or assignments of stock, bonds, notes, debentures or other negotiable instruments, securities or personal property shall be signed by any elected or appointed officer.

All checks, drafts, certificates of deposit and all funds of the Association held in its own or in a fiduciary capacity may be paid out by an order, draft or check bearing the manual or facsimile signature of any elected or appointed officer of the Association.

All mortgage satisfactions, releases, all types of loan agreements, all routine transactional documents of the Association, and all other instruments not specifically provided for, whether to be executed in a fiduciary capacity or otherwise, may be signed on behalf of the Association by any elected or appointed officer thereof.

The Secretary or any Assistant Secretary of the Association or other proper officer may execute and certify that required action or authority has been given or has taken place by resolution of the Board under this Bylaw without the necessity of further action by the Board.

I further certify the following individuals are duly appointed and qualified officers of the Association authorized to act under Article VI of the Bylaws of the Association and that such authority is in full force and effect as of the date hereof and have not been modified, amended or revoked.

Robert T. Jones	Senior Vice President	Jane E. Pope	Vice President
Donna L. Williams	Senior Vice President	Felicia H. Powell	Vice President
Amy E. Anders	Vice President	John C. Robertson	Vice President
James J. Audette	Vice President	Mortimer (Dorsel) Robinson	Vice President
Vicki B. Bellamy	Vice President	Eric T. Rodriguez	Vice President
Nancy C. Blodinger	Vice President	Scott A. Schuhle	Vice President
Elizabeth A. Boyd	Vice President	Joseph A. Schupler	Vice President
Stephanie A. Cox	Vice President	Toni B. Shumpert	Vice President
Wallace L. Duke, Jr.	Vice President	Nancy H. Taylor	Vice President
Michael C. Daly	Vice President	Patrick L. Teague	Vice President
Mary (Lee) W. Daugherty	Vice President	Paul E. Vaden	Vice President
James (David) Dever	Vice President	Patricia A. Welling	Vice President
Michael J. Dockman	Vice President	Valerie Barreto	Asst. Vice President
Karolina K. Donlin	Vice President	April L. Bright	Asst. Vice President
Leanne M. Duffy	Vice President	Zacchaeus Buckner Jr.	Asst. Vice President
Jack L. Ellerin	Vice President	Becky D. Burton	Asst. Vice President
David W. Ferrell	Vice President	Felicia T. Cannon	Asst. Vice President
Monique L. Green	Vice President	Natalie R. Charles	Asst. Vice President
Shawna L. Hale	Vice President	Cassandra A. Gresham	Asst. Vice President
Stephanie E. Haysley	Vice President	Mark C. Hallam	Asst. Vice President
George T. Hogan	Vice President	Robert E. Hedgecock	Asst. Vice President
Connie M. Jaco	Vice President	Paul L. Henderson	Asst. Vice President
Stacey L. Johnson	Vice President	Amanda Kumar	Asst. Vice President
Donald (Wally) Jones	Vice President	Charles R. Lush Jr.	Asst. Vice President
Gregory N. Jordan	Vice President	William Franklin (W. F.) Michie, III	Asst. Vice President
Allison A. Lancaster-Poole	Vice President	Lisa L. Moorehead	Asst. Vice President
Sheryl L. Lear	Vice President	Ryan S. Riggelman	Asst. Vice President

Melody M. Scott  
Patricia Ann Smith

Asst. Vice President  
Asst. Vice President

IN WITNESS WHEREOF, I have set my hand this 18<sup>th</sup> day of December, 2019.

(No corporate seal)



---

Linda E. Bidon, Assistant Secretary

March 5, 2020

First Southwest Leasing Company  
1201 Elm Street, Suite 3500  
Dallas, Texas 75270

Re: Series 2020A Master Lease Purchase Agreement, dated as of March 5, 2020, by and between **First Southwest Leasing Company**, as lessor, and the **State of Mississippi**, represented by and acting through its Department of Finance and Administration, as lessee

Ladies and Gentlemen:

Outlined below is the invoicing procedure we have elected in connection with above-referenced Lease:

- A. Number of invoice copies required: **2**
- B. Submit invoices to:  
**Department of Finance and Administration**  
**1301 Woolfolk Building, Suite B**  
**501 North West Street**  
**Attention: Office of Finance and Budget**  
**Jackson, Mississippi 39201**
- C. Information required on invoice for identification purposes:  
**Mississippi Master Lease Purchase Program, Series 2020A**  
**State Treasurer Fund 3313200000**  
**(Agency Number 1130, Vendor Number 4000001130)**  
**Please process this invoice as a FV60YT document. THANK YOU!**
- D. For internal processing, receipt of invoice at least **forty-five (45)** days prior to payment date is required.
- E. Trustee:  
**RBK U.S. Bank National Association**  
**ABA 091000022**  
**BNF USBANK NA**  
**Beneficiary Account Number: A/C 173103781824**  
**Beneficiary Account Address: 777 E. Wisconsin Avenue**  
**Milwaukee, WI 53202-5300**  
**OBI Account Name – F/B/O State of Mississippi Master Lease Program Series 2020A**  
**Attn: Wallace Duke**

Sincerely,

**THE STATE OF MISSISSIPPI**, represented by and acting through its Department of Finance and Administration

By: \_\_\_\_\_

  
Liz Welch

Interim Executive Director

March 5, 2020

First Southwest Leasing Company  
1201 Elm Street, Suite 3500  
Dallas, Texas 75270

U.S. Bank National Association, as trustee  
Global Corporate Trust  
P.O. Box 4026  
Brandon, Mississippi 39047

Re: Physical Property Damage Insurance and Liability Insurance for the Equipment to be acquired by the State of Mississippi ("State"), represented by and acting through the Department of Finance and Administration, as Lessee, pursuant to that certain Master Lease Purchase Agreement (the "Master Lease Agreement") and the Series 2020A Equipment Schedules thereto, each dated as of March 5, 2020 (the "Equipment Schedules", and together with the Master Lease Agreement, the "Lease"), by and between First Southwest Leasing Company, as lessor, and Lessee; **Master Lease Program, Series 2020A**

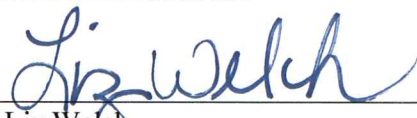
Ladies and Gentlemen:

Please be informed that in connection with the acquisition of the equipment (the "Equipment") to be acquired by Lessee pursuant to the captioned Lease, the State will provide property insurance with respect to physical property damage to the Equipment, excluding vehicles licensed for road use which are damaged while being operated, in which case, the State will provide self-insurance with respect to physical property damage to such vehicles. Accordingly, the State hereby declares First Southwest Leasing Company, as Lessor, and its assignee, U.S. Bank National Association, as trustee (the "Trustee"), as additional insured/loss payees, as their interests may appear, with respect to such self-insurance.

With respect to general liability coverage, the State will provide self-funded insurance pursuant to the Mississippi Tort Claims Act.

Sincerely,

**THE STATE OF MISSISSIPPI, represented by and  
acting through the DEPARTMENT OF FINANCE  
AND ADMINISTRATION**

By:   
Liz Welch  
Interim Executive Director



*Lynn Fitch*  
ATTORNEY GENERAL

March 5, 2020

Butler Snow LLP  
1020 Highland Colony Parkway  
Suite 1400  
Ridgeland, Mississippi 39157

First Southwest Leasing Company  
1201 Elm Street, Suite 3500  
Dallas, Texas 75270

Re: Series 2020A Master Lease Purchase Agreement (the "Master Lease") dated as of March 5, 2020, by and between the **State of Mississippi** (the "State"), represented by and acting through the Department of Finance and Administration of the State (the "Lessee"), and **First Southwest Leasing Company** (the "Lessor") **State of Mississippi Master Lease Program, Series 2020A**

Ladies and Gentlemen:

I have acted as counsel to the Lessee as defined supra with respect to the execution and delivery of (a) the Master Lease; (b) those certain Series 2020A Participating User Agreements, each dated as of March 5, 2020 (the "User Agreements"), by and between the Lessee and certain state agencies and departments and community colleges of the State (the "Participating Users"), as more particularly described in Exhibit A hereto; and (c) the Trust Agreement dated as of March 5, 2020 (the "Trust Agreement"), by and among **U.S. Bank National Association**, as trustee (the "Trustee"), the Lessor and the Lessee (the Master Lease, the User Agreements, and the Trust Agreement being referred to herein as the "Financing Documents"). Unless otherwise defined herein, all terms having a defined meaning in the Financing Documents shall have the same meaning when used herein.

I have reviewed the Financing Documents and such other documents, records, and certificates of the Lessee as I have deemed relevant and am of the opinion that:

1. The Lessee has the full power and authority to enter into and deliver, and to perform all obligations of the Lessee under, the Financing Documents.

2. The execution, delivery, and performance by the Lessee of the Financing Documents have been duly authorized by all necessary action on the part of the Lessee.
3. The Financing Documents each constitute a legal, valid, and binding obligation of the Lessee enforceable in accordance with their respective terms, and upon delivery of the Equipment to the Lessee in accordance with the terms of the Master Lease and the User Agreements. A valid and enforceable lien on such Equipment for the benefit of Lessor and its assigns will be created.
4. The entering into and performance of the Financing Documents will not violate any judgment, order, law, or regulation applicable to the Lessee or result in any breach of, or constitute a default under, or result in the creation of any lien, charge, security interest, or other encumbrance upon the Equipment pursuant to any indenture, mortgage, deed or trust, bank loan, credit agreement, or other instrument by which the Lessee is a party or by which it or its assets may be bound.
5. There are no actions, suits, or proceedings pending, or to the knowledge of the Lessee, threatened against or affecting the Lessee in any court or before any governmental commission, board, or authority, which, if adversely determined, will have a material adverse effect on the ability of the Lessee to perform its obligations under the Financing Documents.
6. No governmental order, permissions, consents, approvals, or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery of the Financing Documents or the acquisition of the Equipment.
7. The Master Lease and the User Agreements each are in accordance with the Mississippi Code and do not violate the usury law statutes of the State.

My opinions herein contained are subject to the following qualifications:

1. The enforceability of obligations under the Financing Documents is subject to bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting the rights and remedies of creditors generally or the application of principles of equity whether in an action in law or proceeding in equity. In addition, I express no opinion regarding the availability of the remedy of specific performance or of any other equitable remedy or relief to enforce any rights under the Financing Documents.

2. The opinions expressed in this letter are based upon the applicable laws, regulations, and ordinances in effect as of the date of this letter. In delivering this letter to you, I am not undertaking to apprise you either of any transactions, events, or occurrences taking place after the date of this letter which may affect my opinions set forth herein.
3. My opinion is limited to the specific opinions expressed above, and no other opinions are intended nor should they be inferred.
4. I am only licensed to practice law in the State of Mississippi and express no opinion with regard to any matters which may be governed by the laws of any state or other jurisdiction other than the State of Mississippi.
5. The Lessee is a party to the Trust Agreement for the sole purpose of complying with the requirements of Section 31-7-10(5) Mississippi Code of 1972, as amended, in the establishment of the Acquisition Fund (as defined in the Trust Agreement) and the scope of this opinion is limited insofar and only insofar as it relates to the Trust Agreement.

This opinion is furnished by me to use solely for your benefit and it is not to be used, circulated, quoted, or otherwise referred to for any purpose other than in the certificates, or relied upon by any other person, except that reference may be made to it in a list of closing documents relating to the delivery of the Certificates.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edward Wiggins, Jr.", with a stylized flourish at the end.

Edward Wiggins, Jr.  
Special Assistant Attorney General

/attachment

## **EXHIBIT A**

### **PARTICIPATING USER AGREEMENTS**

1. Series 2020A Participating User Agreement, dated as of March 5, 2020, by and between the State of Mississippi, represented by and acting through the Department of Finance and Administration of the State ("DFA) and Ellisville State School
2. Series 2020A Participating User Agreement, dated as of March 5, 2020, by and between the State of Mississippi, represented by and acting through the Department of Finance and Administration of the State ("DFA) and Copiah-Lincoln Community College District

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March 5, 2020

U.S. Bank National Association  
Brandon, Mississippi

First Southwest Leasing Company  
Dallas, Texas

State of Mississippi, acting through the  
Mississippi Department of Finance and Administration  
Jackson, Mississippi

Re: \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be Made Pursuant to a Master Lease Purchase Agreement and Equipment Schedules thereto dated as of March 5, 2020, made and entered into by and between the State of Mississippi (the "State"), represented by and acting through the State of Mississippi Department of Finance and Administration, as lessee (the "Lessee"), and First Southwest Leasing Company, as lessor (the "Lessor")

Ladies and Gentlemen:

We have served as counsel to U.S. Bank National Association, Brandon, Mississippi, as trustee (the "Trustee") under the Trust Agreement, dated as of March 5, 2020, by and among the Trustee, the Lessor and the Lessee (the "Trust Agreement"), in connection with the sale and delivery of those certain above captioned \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) (the "Certificates").

The Certificates represent an undivided ownership interest of the holder thereof in the right to receive proportionate shares of certain payments (the "Lease Payments") to be paid by the Lessee under that certain Series 2020A Master Lease Purchase Agreement, dated as of March 5, 2020 (the "Lease Agreement"), by and between the Lessor, as lessor, and the Lessee, as lessee. Pursuant to an Absolute Assignment Agreement, dated as of March 5, 2020 (the "Assignment"), the Lessor has assigned to the Trustee all of its right, title and interest in and to the Lease Agreement, including the Lease Payments.

*Post Office Box 6010  
Ridgeland, MS 39158-6010*

*T 601.948.5711  
F 601.985.4500  
www.butlersnow.com*

*Suite 1400  
1020 Highland Colony Parkway  
Ridgeland, MS 39157*

All capitalized terms used herein and not otherwise defined herein shall have the same meanings as ascribed to them under the Trust Agreement. The Trust Agreement, the Assignment and the Certificates are collectively referred to herein as the "Trustee Documents".

Whenever we assert below that a matter is "to our knowledge" or "known to us", unless otherwise qualified, our knowledge is limited to actual knowledge of those attorneys in our offices who have directly participated in the preparation of this opinion letter or were primarily responsible for providing the response concerning a particular opinion, issue or information regarding factual matters or who have been principally involved in negotiating this transaction and preparation of the Trustee Documents.

We have examined executed counterparts of the Trustee Documents and such other agreements, documents and opinions as we have deemed relevant and necessary in connection with the opinions set forth below.

Based upon the foregoing and subject to the qualifications and assumptions herein, we are of the opinion as of the date hereof that:

1. The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America.
2. The Trustee has full corporate power and authority to execute and deliver the Trustee Documents and to perform its obligations thereunder.
3. The execution and delivery by the Trustee of the Trustee Documents has been duly authorized and, upon the proper execution and delivery of the Trust Agreement by the other parties thereto, the Trust Agreement shall constitute a legal, valid and binding obligation of the Trustee, enforceable in accordance with its terms.
4. To our knowledge, neither the execution or delivery by the Trustee of the Trustee Documents and the other agreements, documents and instruments contemplated thereby to which the Trustee is a party, nor the performance by the Trustee of its obligations thereunder will result in (a) any violation of the charter or bylaws of the Trustee or any state law, federal law, governmental rule or regulation binding on it or (b) any breach of any of the terms or provisions of, or constitute a default under, any agreement, document or instrument to which the Trustee is a party or by which it is bound.
5. No state or federal governmental consent, authorization or approval is required in connection with the execution, delivery or performance by the Trustee of the Trustee Documents.
6. To our knowledge, there is no action, suit, proceeding or investigation at law or in equity before any court, public board or body, pending or threatened against or affecting the Trustee, individually or as trustee, wherein an unfavorable decision, ruling or finding on an issue raised by any party thereto is likely to materially adversely affect the transactions contemplated by the Trustee Documents, or the validity or enforceability thereof, or if

determined adversely to the Trustee, might have a material adverse effect on the financial condition of the Trustee, individually or as trustee.

Our opinions herein contained are subject to the following qualifications:

1. The enforceability of obligations under the Trustee Documents is subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the rights and remedies of creditors generally or the application of principles of equity whether in an action in law or proceeding in equity. In addition we express no opinion regarding the availability of the remedy of specific performance or of any other equitable remedy or relief, to enforce any right under the Trustee Documents.
2. The opinions expressed in this letter are based upon the applicable laws, regulations and ordinances in effect as of the date of this letter. In delivering this letter to you, we are not undertaking to apprise you either of any transactions, events or occurrences taking place after the date of this letter of which we may acquire any knowledge or of any change in any applicable laws taking place after the date of this letter which may affect our opinions set forth herein.
3. Our opinion is limited to the specific opinions expressed above, and no other opinions are intended nor should they be inferred.
4. We are only licensed to practice law in the State of Mississippi and do not hold ourselves out to be experts on the laws of any jurisdiction other than the State of Mississippi and the United States of America. We express no opinion with regard to any matters which may be governed by the laws of any state or other jurisdiction other than the State of Mississippi and the United States of America.

This opinion is furnished by us to use solely for your benefit and it is not to be used, circulated, quoted or otherwise referred to for any purpose other than in the offering of the Certificates, or relied upon by any other person, except that reference may be made to it in a list of closing documents relating to the delivery of the Certificates and in any offering document relating to the Certificates. Delivery of this opinion to the Lessor does not establish an attorney-client relationship between the Lessor and this firm in connection with the issuance of the Certificates.

Sincerely,

*Butler Snow LLP*

# BUTLER | SNOW

March 5, 2020

First Southwest Leasing Company  
Dallas, Texas

State of Mississippi, acting through the  
Mississippi Department of Finance and Administration  
Jackson, Mississippi

Re: \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be Made Pursuant to a Master Lease Purchase Agreement and the Equipment Schedules thereto dated as of March 5, 2020, made and entered into by and between the State of Mississippi (the "State"), represented by and acting through the State of Mississippi Department of Finance and Administration, as lessee (the "Lessee"), and First Southwest Leasing Company, as lessor (the "Lessor")

Ladies and Gentlemen:

This opinion is being rendered to you in connection with the sale and delivery of those certain above captioned Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) (the "Certificates") delivered pursuant to a Trust Agreement, dated as of March 5, 2020, by and among U.S. Bank National Association, Brandon, Mississippi, as Trustee (the "Trustee"), the Lessor and the Lessee (the "Trust Agreement").

The Certificates represent an undivided ownership interest of the holder thereof in the right to receive proportionate shares of certain payments (the "Lease Payments") to be paid by the Lessee under that certain Series 2020A Master Lease Purchase Agreement, dated as of March 5, 2020 (the "Agreement"), by and between the Lessor and the Lessee. Pursuant to that certain Absolute Assignment Agreement, dated as of March 5, 2020, between the Lessor and the Trustee, the Lessor has assigned to the Trustee all of its right, title and interest in and to the Agreement, including the Lease Payments.

Unless otherwise indicated, capitalized terms used herein which are defined in the Trust Agreement are intended to have the same meaning when so used herein as when used in the Trust Agreement.

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F 601.985.4500  
www.butlersnow.com*

*Suite 1400  
1020 Highland Colony Parkway  
Ridgeland, MS 39157*

We have acted as Special Tax Counsel to the Lessee in connection with the delivery and sale of the Certificates. In that capacity, we have examined executed counterparts of the Trust Agreement, the Agreement, and that certain Absolute Assignment Agreement by the Lessor, as assignor, and the Trustee, as assignee, dated as of the date hereof, and various certificates and documents delivered by the Lessee, the Lessor and the Trustee in connection with the sale and delivery of the Certificates (collectively, the "Financing Documents") and such other documents and matters as we have deemed necessary to render this opinion. As to questions of fact material to this opinion, we have relied upon representations of the Lessee and the Lessor contained in the Financing Documents and the certified proceedings and other certifications of officials of the Lessee and the Lessor, without undertaking to certify the same by independent investigation. We have assumed that all signatures on all documents submitted to us are genuine, that all documents submitted to us as originals are accurate and complete and that all documents submitted to us as copies are true and correct copies of the originals thereof.

In rendering this opinion, we have relied upon the opinion of Edward Wiggins, Esq., Special Assistant Attorney General of the State, acting as counsel to the Lessee, addressed to you and dated the date hereof, particularly as it relates to the nature of the Lessee; the power of the Lessee to enter into the Agreement and to carry out its obligations thereunder; the authorization by the Lessee to lease the Equipment; the authorization by the Lessee of the execution and delivery by, and the performance of, the Lessee under the Agreement; and the nature and enforceability of the Agreement as a legal, valid and binding obligation of the Lessee.

Based solely upon the foregoing, and upon existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder, published revenue rulings and releases of the Internal Revenue Service and court decisions existing as of the date hereof, but subject to the assumptions and conditions described herein and below, we are of the opinion on the date hereof that: (a) the portion of each Lease Payment designated as interest on Exhibit B to the Agreement (the "Lease Payment Interest"), and the allocable portion thereof distributable in respect of each Certificate (herein referred to as "interest distributable on Certificates"), is excludable pursuant to Section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes, and (b) such Lease Payment Interest, and such interest distributable on Certificates, do not constitute items of tax preference, within the meaning of and to the extent provided in Section 57(a) of the Code, for purposes of federal alternative minimum taxes. Further, based solely upon the foregoing, and upon existing provisions of Section 31-7-10, Mississippi Code of 1972, as amended, we are of the opinion that the interest distributable on the Certificates is exempt from all income taxes imposed by the State of Mississippi.

The Code imposes a number of requirements that must be satisfied in order for the Lease Payment Interest and interest distributable on Certificates to be excludable from gross income under Section 103(a) of the Code and to be other than items of tax preference within the meaning of Section 57(a) of the Code. As applied to the Certificates, these requirements include limitations on the use of the proceeds of sale of the Certificates (and on the ownership and use of property acquired therewith), on the investment and reinvestment of such proceeds, and on the source or security for payment of the Lease Payments, a requirement that excess arbitrage earned on the investment of the proceeds of sale and other amounts related to the Certificates be paid

periodically to the United States of America, and a requirement that an information report in respect of the delivery of the Agreement and sale of the Certificates be filed by or on behalf of the Lessee with the Internal Revenue Service. The Lessee and the Participating User have entered into certain covenants designed to ensure compliance with the aforementioned provisions. However, if the Lessee or the Participating User were to fail to comply with these covenants, the Lease Payment Interest and interest distributable on Certificates accruing or distributable on or after the date of initial delivery thereof could be determined not to be excludable from gross income pursuant to Section 103(a) of the Code or to be items of tax preference within the meaning of Section 57(a) of the Code.

Our opinions are premised upon the assumption of continuing compliance with such covenants and, in addition, are given in express reliance on representations of the Lessee and the Participating User with respect to matters within their knowledge and that of their officials, which we have not independently verified. If the Lessee or the Participating User should fail to comply with these covenants, or if the foregoing representations should be determined to be inaccurate or incomplete, regardless of the date on which such failure to comply or such determination of inaccuracy or incompleteness occurs, the Lease Payment Interest and interest distributable on Certificates could be deemed not to have been excludable from gross income under Section 103(a) of the Code or to be items of tax preference within the meaning of Section 57(a) of the Code from the date of initial delivery of the Certificates.

In addition, each potential purchaser of the Certificates should consider that the holding of Certificates by certain persons, or the receipt by such persons of interest distributable on Certificates, may also result in other collateral federal tax consequences not directly related to the excludability of such interest distributable on Certificates from gross income of such recipients. We urge each prospective purchaser of Certificates to consult his or her own tax advisor with respect to such matters.

We have not been requested to express herein, and do not hereby express, any opinion as to (a) the compliance with federal and state securities laws in connection with the offering and sale of the Certificates, (b) the accuracy or completeness of any offering materials used in connection with the offering and sale of the Certificates, or (c) the existence and perfection of any security interest which the Lessor or the Trustee may have in and to the Equipment. Further, except for the opinion set forth above regarding income taxes under the laws of the State of Mississippi, we have not been requested to express herein, and do not hereby express, any opinion as to any matter affected by any taxing or other law of the State of Mississippi.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. This opinion is given solely for the use and benefit of the addressee hereof, and only in connection with the issuance and delivery of the Certificates and may not be used or relied upon by any other person or in connection with any other transaction, except with the express consent of this firm.

No attorney-client relationship has existed or exists between us and anyone other than the Lessee in connection with the issuance of the Certificates by virtue of this opinion letter, and, specifically, this letter does not establish an attorney-client relationship between the addressee

March 5, 2020

Page 4

and this firm or between owners of the Certificates and this firm in connection with the Certificates and the Agreement.

Sincerely,

Butler Snow LLP

51970959.v1

# BUTLER | SNOW

March 5, 2020

First Southwest Leasing Company  
Dallas, Texas

State of Mississippi, acting through the  
Mississippi Department of Finance and Administration  
Jackson, Mississippi

Re: \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be Made Pursuant to a Master Lease Purchase Agreement and the Equipment Schedules thereto dated as of March 5, 2020, made and entered into by and between the State of Mississippi (the "State"), represented by and acting through the State of Mississippi Department of Finance and Administration, as lessee (the "Lessee"), and First Southwest Leasing Company, as lessor (the "Lessor")

Ladies and Gentlemen:

This opinion is being rendered to you in connection with the sale and delivery of those certain above captioned \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) (the "Certificates") issued pursuant to a Trust Agreement, dated as of March 5, 2020, by and among U.S. Bank National Association, Brandon, Mississippi, as trustee (the "Trustee"), the Lessor and the Lessee (the "Trust Agreement").

The Certificates represent an undivided ownership interest of the holder thereof in the right to receive proportionate shares of certain payments (the "Lease Payments") to be paid by the Lessee under that certain Series 2020A Master Lease Purchase Agreement, dated as of March 5, 2020 (the "Lease Agreement"), by and between the Lessor, as lessor, and the Lessee, as lessee. Pursuant to an Absolute Assignment Agreement, dated as of March 5, 2020, the Lessor has assigned to the Trustee all of its right, title and interest in and to the Lease Agreement, including the Lease Payments.

Unless otherwise indicated, capitalized terms used herein which are defined in the Trust Agreement are intended to have the same meaning when so used herein as when used in the Trust Agreement.

We have acted as Special Counsel to the Lessee for the limited purpose of rendering our opinion regarding the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), as the same

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Ridgeland, MS 39158-6010*

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*Suite 1400  
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Ridgeland, MS 39157*

March 5, 2020

Page 2

might relate to the sale and delivery of the Certificates and to the Trust Agreement, respectively. In that capacity, we have examined executed counterparts of the Trust Agreement, the Lease Agreement and various certificates and documents delivered by the Lessee, the Lessor and the Trustee in connection with the sale and delivery of the Certificates (collectively, the "Financing Documents") and such other documents and matters as we have deemed necessary to render this opinion. As to questions of fact material to this opinion, we have relied upon representations of the Lessor and the Lessee contained in the Financing Documents, and the certified proceedings and other certifications of officials of the Lessor and the Lessee, without undertaking to certify the same by independent investigation. We have assumed that all signatures on all documents submitted to us are genuine, that all documents submitted to us as originals are accurate and complete and that all documents submitted to us as copies are true and correct copies of the originals thereof.

Based on and subject to the foregoing and subject further to the assumptions, exceptions and qualifications hereinafter stated, as of the date hereof, we express the following opinions:

1. The sale and delivery of the Certificates does not require registration under the Securities Act; and
2. The Trust Agreement is not subject to qualification under the Trust Indenture Act.

In rendering this opinion, we have relied upon the opinion of Edward Wiggins, Esq., Special Assistant Attorney General of the State, acting as counsel to the Lessee, addressed to you of even date herewith, particularly as it relates to the authorization by the Lessee of the execution and delivery by, and the performance of, the Lessee under the Financing Documents to which it is a party, and to the nature and enforceability of the Agreement as creating legal, valid and binding obligations of the Lessee.

We have not participated in the preparation or review of any offering materials which might have been, or might be, used in connection with the sale and delivery of the Certificates. We have not been requested to, and do not, offer any opinion regarding the completeness, truthfulness or sufficiency of any such materials or of any statements which might be made therein or omitted therefrom.

We have also not been requested to, and do not, offer any opinion regarding the compliance by the Lessor or the Lessee with the provisions of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Without the prior written consent of this firm, this opinion may not be relied upon by any person or entity other than you, quoted in whole or in part or otherwise referred to in any report or document, or furnished to any other person or entity (other than your legal counsel and employees). Delivery of this opinion to the Lessor does not establish an attorney-client relationship between the Lessor and this firm in connection with the issuance of the Certificates.

Sincerely,

*Butler Snow LLP*

# BUTLER | SNOW

March 5, 2020

Trustmark National Bank  
Jackson, Mississippi

Re: \$1,305,000 Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) Evidencing Proportionate Interests in Lease Payments to be Made Pursuant to a Master Lease Purchase Agreement and the Equipment Schedules thereto dated as of March 5, 2020, made and entered into by and between the State of Mississippi, represented by and acting through the State of Mississippi Department of Finance and Administration, as lessee, and First Southwest Leasing Company, as lessor

Ladies and Gentlemen:

We have acted as special tax counsel in connection with the sale and delivery of those certain above captioned Privately-Placed Lease Revenue Certificates of Participation (Master Lease Program Series 2020A) (the "Certificates").

In our capacity as special counsel, we have rendered an opinion of even date herewith addressed to the Commission relating to the Certificates (the "Opinion"). This letter authorizes you to rely on the legal conclusions in such Opinion as if it had been originally addressed to you.

We assume no obligation to advise you of any changes in the Opinion subsequent to the delivery of the Opinion. This letter is furnished to you and is solely for your information and benefit in connection with the issuance of the Certificates and may not be relied upon by you for any other purpose or relied upon by any other party without the prior written consent of this firm.

In connection with the issuance of the Certificates, we have represented the Commission, which is our sole client in this transaction. Delivery of this letter to you does not establish an attorney-client relationship between this firm and Trustmark National Bank regarding the issuance of the Certificates.

Respectfully yours,

*Butler Snow LLP*

51970913.v1

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214.953.8874 Direct  
214.953.4072 Fax

**Vickie L. Hall**  
Vice President

Vickie.Hall@hilltopsecurities.com

March 5, 2020

First Southwest Leasing Company  
1201 Elm Street  
Suite 3500  
Dallas, Texas 75270

U.S. Bank National Association,  
as trustee  
PO Box 4026  
Brandon, Mississippi 39047

Butler Snow LLP  
1020 Highland Colony Parkway  
Ridgeland, Mississippi 39157

Re: Series 2020A Master Lease Purchase Agreement (the "Master Lease Agreement"), dated as of March 5, 2020, made and entered into by and between **First Southwest Leasing Company** ("FirstSouthwest Leasing"), a corporation duly organized and existing under the laws of the State of Delaware, and the **State of Mississippi**, represented and acting through its Department of Finance and Administration (the "Lessee"); that certain Absolute Assignment Agreement dated as of March 5, 2020 (the "Assignment"), made and entered into by and between FirstSouthwest Leasing, as Assignor, and **U.S. Bank National Association**, as trustee, and that certain Trust Agreement dated as of March 5, 2020 (the "Trust Agreement"), made and entered into by and among **U.S. Bank National Association**, as Trustee (the "Trustee"), FirstSouthwest Leasing, as Trustor, and the Lessee

Ladies and Gentlemen:

I am counsel to FirstSouthwest Leasing, and have acted in such capacity in connection with the preparation and review of the Lease, the Trust Agreement, and the Assignment.

In rendering the opinions expressed below, I have examined executed originals of each of the Lease, the Trust Agreement, and the Assignment, and executed originals of each of the documents executed by FirstSouthwest Leasing in connection with the foregoing documents (collectively, the "Financing Documents"). In addition, I have examined the pertinent statutes, and such other documents, certificates, records and other instruments as I deemed necessary to enable me to express the opinions set forth below.

Based on the foregoing, it is my opinion that:

1. FirstSouthwest Leasing is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware and is duly qualified as a foreign corporation under the laws of the State of Mississippi and under the laws of each jurisdiction where the failure of FirstSouthwest Leasing to so qualify would have a material adverse effect on its ability to perform its obligations under the Financing Documents, and FirstSouthwest Leasing has the power and authority to execute and deliver, and to perform its obligations under, the Financing Documents.
2. The execution and delivery of the Financing Documents and the performance by FirstSouthwest Leasing of its obligations thereunder, have been duly authorized by all necessary action on its part.
3. Each of the Financing Documents has been duly executed and delivered by FirstSouthwest Leasing and constitutes the legal, valid and binding obligation of FirstSouthwest Leasing, enforceable in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, or by equitable principles.
4. Neither the execution and delivery by FirstSouthwest Leasing of the Financing Documents, nor the performance by FirstSouthwest Leasing of its obligations thereunder, (i) requires any approvals or permits except such as have been duly obtained, (ii) violates any law or regulation binding on FirstSouthwest Leasing, (iii) contravenes the articles of incorporation or by-laws of FirstSouthwest Leasing, or (iv) will result in any breach of any of the terms or provisions of, or constitute a default under, any agreement, document or instrument to which FirstSouthwest Leasing is a party or by which it is bound.
5. To my knowledge, there is no litigation or administrative proceeding (including bankruptcy or insolvency proceedings) pending or threatened against or affecting FirstSouthwest Leasing wherein an unfavorable determination would adversely affect its ability to conduct its business or consummate the transactions contemplated by the Financing Documents.

The opinions expressed in this letter are based upon the applicable laws, regulations and ordinances in effect as of the date of this letter. I am licensed to practice law in the State of Texas and I do not hold myself out as an expert on the laws of any jurisdiction other than the State of Texas. This letter is furnished by me only for your benefit and may not be relied upon by any other persons. The opinions expressed herein are limited to the matters set forth herein and no other opinions should be inferred beyond the matters expressly stated herein.

Sincerely yours,



Vickie L. Hall  
Vice President



1201 Elm Street, Suite 3500  
Dallas, Texas 75270

214.953.8874 Direct  
214.953.4072 Fax

Vickie L. Hall  
Vice President

Vickie.Hall@hilltopsecurities.com

March 13, 2020

*CERTIFIED MAIL, RETURN RECEIPT REQUESTED*  
*7000 1670 0001 1062 0838*

Internal Revenue Service Center  
Ogden, Utah 84201

Re: \$1,305,000 **Privately-Placed** Lease Revenue Certificates of Participation (Master Lease Program, Series 2020A), Evidencing Proportionate Interests in Lease Payments to be Made Pursuant to a Series 2020A Master Lease Purchase Agreement, as of March 5, 2020, made and entered into by and between the State of Mississippi, represented by and acting through the State of Mississippi Department of Finance and Administration, as lessee, and First Southwest Leasing Company, as lessor

Ladies and Gentlemen:

Enclosed for filing are duplicate originals of Form 8038-G prepared in connection with the captioned financing.

Thank you very much for your assistance.

Sincerely yours,

Vickie L. Hall  
Vice President

U.S. Postal Service CERTIFIED MAIL RECEIPT (Domestic Mail Only; No Insurance Coverage Provided)	
OFFICIAL USE	
Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$
2020A -DFA	
Postmark Here	
3.13.20	
Sent To IRS Service Center	
Street, Apt. No.; or PO Box No.	
City, State, ZIP+4 Ogden, UT 84201	
PS Form 3800, May 2000 See Reverse for Instructions	

**Information Return for Tax-Exempt Governmental Bonds**

► Under Internal Revenue Code section 149(e)

► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

► Go to [www.irs.gov/F8038G](http://www.irs.gov/F8038G) for instructions and the latest information.

OMB No. 1545-0720

**Part I Reporting Authority**If Amended Return, check here ☐

<b>1</b> Issuer's name State of Mississippi represented by its Department of Finance and Administration		<b>2</b> Issuer's employer identification number (EIN) 64-6000749
<b>3a</b> Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions) Vickie Hall		<b>3b</b> Telephone number of other person shown on 3a 214.953.8874
<b>4</b> Number and street (or P.O. box if mail is not delivered to street address) 501 North West Street	<b>Room/suite</b> 1301-A	<b>5</b> Report number (For IRS Use Only) 3
<b>6</b> City, town, or post office, state, and ZIP code Jackson MS 39201		<b>7</b> Date of issue March 5, 2020
<b>8</b> Name of issue Privately-Placed Lease Purchase Certificates of Participation, Series 2020A		<b>9</b> CUSIP number NONE
<b>10a</b> Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) Liz Welch, Interim Executive Director, Department of Finance and Administration		<b>10b</b> Telephone number of officer or other employee shown on 10a 601.359.3402

**Part II Type of Issue (enter the issue price).** See the instructions and attach schedule.

<b>11</b> Education . . . . .	<b>11</b>		
<b>12</b> Health and hospital . . . . .	<b>12</b>		
<b>13</b> Transportation . . . . .	<b>13</b>		
<b>14</b> Public safety . . . . .	<b>14</b>		
<b>15</b> Environment (including sewage bonds) . . . . .	<b>15</b>		
<b>16</b> Housing . . . . .	<b>16</b>		
<b>17</b> Utilities . . . . .	<b>17</b>		
<b>18</b> Other. Describe ►	<b>18</b>	1,305,000	00
<b>19a</b> If bonds are TANs or RANs, check only box 19a . . . . . <input type="checkbox"/>			
<b>b</b> If bonds are BANs, check only box 19b . . . . . <input type="checkbox"/>			
<b>20</b> If bonds are in the form of a lease or installment sale, check box . . . . . <input type="checkbox"/>			

**Part III Description of Bonds.** Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
<b>21</b>	10/15/2024	\$ 1,305,000	\$ 1,305,000	2.236 years	1.94037 %

**Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)**

<b>22</b> Proceeds used for accrued interest . . . . .	<b>22</b>	0	00
<b>23</b> Issue price of entire issue (enter amount from line 21, column (b)) . . . . .	<b>23</b>	1,305,000	00
<b>24</b> Proceeds used for bond issuance costs (including underwriters' discount) . . . . .	<b>24</b>	27,468	00
<b>25</b> Proceeds used for credit enhancement . . . . .	<b>25</b>	0	00
<b>26</b> Proceeds allocated to reasonably required reserve or replacement fund . . . . .	<b>26</b>	0	00
<b>27</b> Proceeds used to refund prior tax-exempt bonds. Complete Part V . . . . .	<b>27</b>	0	00
<b>28</b> Proceeds used to refund prior taxable bonds. Complete Part V . . . . .	<b>28</b>	0	00
<b>29</b> Total (add lines 24 through 28) . . . . .	<b>29</b>	27,468	00
<b>30</b> Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here) . . . . .	<b>30</b>	1,277,532	00

**Part V Description of Refunded Bonds.** Complete this part only for refunding bonds. N/A

<b>31</b> Enter the remaining weighted average maturity of the tax-exempt bonds to be refunded . . . . .	years
<b>32</b> Enter the remaining weighted average maturity of the taxable bonds to be refunded . . . . .	years
<b>33</b> Enter the last date on which the refunded tax-exempt bonds will be called (MM/DD/YYYY) . . . . .	
<b>34</b> Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)	

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 63773S

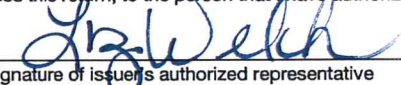
Form **8038-G** (Rev. 9-2018)

**Part VI Miscellaneous**

- |            |  |   |    |
|------------|--|---|----|
| <b>35</b>  |  | 0 | 00 |
| <b>36a</b> |  | 0 | 00 |
| <b>37</b>  |  | 0 | 00 |
- 35** Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) . . . . .
- 36a** Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC). See instructions . . . . .
- b** Enter the final maturity date of the GIC ► (MM/DD/YYYY) \_\_\_\_\_
- c** Enter the name of the GIC provider ► \_\_\_\_\_
- 37** Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units . . . . .
- 38a** If this issue is a loan made from the proceeds of another tax-exempt issue, check box ☐ and enter the following information:
- b** Enter the date of the master pool bond ► (MM/DD/YYYY) \_\_\_\_\_
- c** Enter the EIN of the issuer of the master pool bond ► \_\_\_\_\_
- d** Enter the name of the issuer of the master pool bond ► \_\_\_\_\_
- 39** If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box . . . . . ☐
- 40** If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box . . . . . ☐
- 41a** If the issuer has identified a hedge, check here ☐ and enter the following information:
- b** Name of hedge provider ► \_\_\_\_\_
- c** Type of hedge ► \_\_\_\_\_
- d** Term of hedge ► \_\_\_\_\_
- 42** If the issuer has superintegrated the hedge, check box . . . . . ☐
- 43** If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box . . . . . ☐
- 44** If the issuer has established written procedures to monitor the requirements of section 148, check box . . . . . ☐
- 45a** If some portion of the proceeds was used to reimburse expenditures, check here ☐ and enter the amount of reimbursement . . . . . ► \_\_\_\_\_
- b** Enter the date the official intent was adopted ► (MM/DD/YYYY) \_\_\_\_\_

**Signature and Consent**

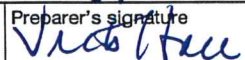
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.

  
Signature of issuer's authorized representative

3/5/2020  
Date

Liz Welch, Interim Executive Director  
Type or print name and title

**Paid Preparer Use Only**

Print/Type preparer's name <b>Vickie Hall</b>	Preparer's signature 	Date 3/5/2020	Check <input type="checkbox"/> if self-employed	PTIN P01704188
Firm's name ► <b>Hilltop Securities Inc.</b>			Firm's EIN ► <b>75-1382137</b>	
Firm's address ► <b>1201 Elm Street, Suite 3500, Dallas TX 75270</b>			Phone no. <b>214.953.4000</b>	

2080106257

File Number: 20203190568A

Date Filed: 3/13/2020 3:33:49 PM

Michael Watson

Secretary of State

## UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) <b>Vickie Hall</b> (214) 953-8874	
B. EMAIL CONTACT AT FILER (optional) <b>vickie.hall@hilltopsecurities.com</b>	
C. SEND ACKNOWLEDGMENT TO: (Name and Address)  <b>Hilltop Securities Inc.</b> <b>1201 ELM ST STE 3500</b> <b>DALLAS, TX 75270-2108</b>	

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor Name (1a or 1b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION NAME OR State of Mississippi acting through its Department of Finance and Administration				
1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
1c. MAILING ADDRESS PO BOX 267	CITY JACKSON	STATE MS	POSTAL CODE 39205	COUNTRY USA

2. DEBTOR'S NAME: Provide only one Debtor Name (2a or 2b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION NAME OR				
2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
2c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

3. SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION NAME OR US Bank National Association, as trustee				
3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
3c. MAILING ADDRESS PO BOX 4062	CITY BRANDON	STATE MS	POSTAL CODE 39047	COUNTRY USA

4. COLLATERAL: This financing statement covers the following collateral:

Each item of equipment acquired or to be acquired or refinanced under the Series 2020A Master Lease Program dated as of March 5, 2020, including, but not limited to, computers and other technology equipment including desktop computers, scanners, switches, wireless access points and medical record software and required installation (total equipment cost for Ellisville State School - \$877,532; five-year term); and laboratory computers, lecterns, and security cameras (total equipment cost for Copiah-Lincoln Community College - \$400,000; four-year term); together with any and all additions, attachments, and accessions to any of the equipment listed hereon, any and all proceeds of any sale, assignment, lease, sublease, or rental of any of the equipment listed hereon, and any and all proceeds of any insurance settlement or recovery with respect to any of the equipment listed hereon.

5. Check only if applicable and check only one box: Collateral is ☐ held in a Trust (see UCC1Ad item 17 and instructions) ☐ being administered by a Decedent's Personal Representative

6a. Check only if applicable and check only one box:

☐ Public-Finance Transaction ☐ Manufactured Home Transaction ☐ A Debtor is a Transmitting Utility

6b. Check only if applicable and check only one box:

☐ Agricultural Lien ☐ Non-UCC Filing

7. ALTERNATIVE DESIGNATION (if applicable) ☐ Lessee/Lessor ☐ Consignee/Consignor ☐ Seller/Buyer ☐ Bailee/Bailor ☐ Licensee/Licensor

8. OPTIONAL FILER REFERENCE DATA

2020 - DFA

## SERIES 2020A PARTICIPATING USER AGREEMENT

This **SERIES 2020A PARTICIPATING USER AGREEMENT** (this “User Agreement”), dated as of March 5, 2020, is made and entered into by and between the **ELLISVILLE STATE SCHOOL**, a duly organized and validly existing agency (the “Participating User”) of the State of Mississippi and the **STATE OF MISSISSIPPI**, represented by and acting through the State of Mississippi Department of Finance and Administration (herein referred to as “DFA”).

### RECITALS

WHEREAS, pursuant to the authority granted by Section 31-7-10 of the Mississippi Code of 1972, as amended (the “Mississippi Code”), DFA on behalf of the State of Mississippi (the “State”) is authorized to develop a Master Lease Purchase Program (the “Program”) and to execute on behalf of the State master lease purchase agreements for the purchase of equipment to be used by agencies or departments (each, an “Agency”), or community college districts (each, a “Community College District” or “the District” and together with the Agencies, being herein referred to as the “Participating Users”) of the State of Mississippi; and

WHEREAS, pursuant to such authority and as a part of the Program, DFA on behalf of the State has entered into that certain Series 2020A Master Lease Purchase Agreement (the “Master Lease Agreement”), dated as of March 5, 2020, with First Southwest Leasing Company (“Lessor”), pursuant to which DFA may lease purchase equipment from Lessor for use by Participating Users on the terms and conditions provided therein; and

WHEREAS, the Participating User desires to participate in the Program and to have acquired by lease purchase under the Master Lease Purchase Agreement certain items of equipment which the Participating User shall use on the terms and conditions as provided in this User Agreement.

NOW, THEREFORE, for and in consideration of the foregoing recitals and the covenants and agreements contained herein, the parties do hereby agree as follows:

1. The Series 2020A Participating User Equipment. In consideration of the payments provided herein, and the other covenants contained herein, DFA hereby agrees to acquire by lease purchase under the Master Lease Agreement, for the Participating User’s use, equipment and other personal property (the “User Equipment”) described in the Equipment Schedule(s) attached hereto and incorporated herein by reference as **Exhibit “A”** (collectively, the “Equipment Schedule”) upon the terms and conditions as provided for in this User Agreement. The Participating User certifies by execution hereof that an amount sufficient for payments to be made under this User Agreement has been appropriated for the remainder of the fiscal year in which this User Agreement is executed.

The Participating User further certifies that it has complied with all competitive bidding laws applicable to State purchases and the total purchase price for each piece of User Equipment as set forth in the Equipment Schedule is the firm price as quoted by the successful bidder for such item of User Equipment. The Participating User agrees that it will be responsible for any and all amounts in excess of the “Amount of the Lease Purchase” in the Equipment Schedule for any items of the User Equipment.

2. Payment of the Purchase Price of the User Equipment. Upon receipt and acceptance of an item of User Equipment, the Participating User shall promptly complete and submit to Lessor a Request for Disbursement in the form attached hereto as **Exhibit “B”** together with all attachments required thereby. If funds are to be disbursed by the Trustee simultaneously with the execution and delivery and initial funding of the Master Lease Agreement, a closing statement (the “Closing Statement”) will be delivered to the Trustee at that time. Upon receipt of a Closing Statement or a Request for Disbursement conforming to the requirements of the Master Lease Agreement by Lessor, Lessor shall cause to be disbursed funds for payment of the purchase price of the User Equipment. **The Participating User agrees with respect to the User Equipment described in the Equipment Schedule, that any obligations, covenants or agreements that DFA, as Lessee, has made or which DFA has agreed to cause the Participating User to perform under the Master Lease Agreement, including, without limitation, the obligation to procure insurance coverage with respect to the User Equipment and to pay or cause to be paid, or if requested by Lessor, to reimburse Lessor for, all filing, registration or other similar fees, costs or expenses, other than any fees or expenses of legal counsel to Lessor, incurred by Lessor in connection with the perfection or release of any security interest granted with respect to the User Equipment, shall be deemed an obligation of the Participating User and that the terms and conditions of the Master Lease Agreement applicable to DFA, the User Equipment and the Participating User are in turn binding upon the Participating User as if written herein, provided, however, that if Lessor is so requested by the Participating User, the cost of any such insurance (except self-insurance) and any such filing, registration or other similar fees, costs or expenses, that are known as of the effective date hereof with respect to the User Equipment, may be added to the cost of the User Equipment to be acquired hereunder and financed pursuant to the terms hereof.**

3. Payments. The Participating User agrees that for and in consideration of DFA lease purchase of the User Equipment and use thereof by the Participating User, the Participating User shall on the dates set forth on the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”** (each such date being at least five (5) business days prior to the date on which the corresponding Lease Payment is due to be paid by DFA pursuant to the Master Lease Agreement), transfer into the Master Lease Purchase Repayment Account-Series 2020A (the “Fund”) maintained by the Mississippi State Treasury, the Series 2020A Participating User Lease Payments (the “Participating User Lease Payments”) described in the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”**. If any Participating User Lease Payment is due on a day which is not a business day (“business day” being defined as a day on which the offices of the State and banks located in the State and in the State of Mississippi are not required by law to close), such Participating User Lease Payment shall be due on the next day which is a business day. The Participating User hereby acknowledges and agrees that (i) DFA will aggregate the Participating User Lease Payments with similar payments from other Participating Users and will cause all the Participating User Lease Payments to be paid to the Trustee (as defined in the Master Lease Agreement) on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement, (ii) the Participating User Lease Payments will be applied to make the Series 2020A Aggregate Lease Payments (of which the Participating User Lease Payments will be deemed a part) to the owners of the Certificates in the amounts and on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement. In addition, upon notice from DFA, the Participating User shall transfer to the Fund any other payments required to be made by DFA with respect to such User Equipment pursuant to the terms of the Master Lease Agreement.

The Participating User agrees that all payments are due to DFA on the dates indicated on the Participating User Lease Payment Schedule, without offset, abatement or deduction of any amounts whatsoever, notwithstanding the fact that an item or items of User Equipment has not been delivered or accepted, or have been found not to satisfy the needs of the Participating User. The Participating User, at its discretion, may prepay all or any portion equal to or exceeding \$50,000 of the Participating User Lease Payments prior to the respective due dates thereof to DFA. Any Participating User Lease Payment paid to DFA prior to its respective due date will be held in the Fund until such amount is needed to pay the corresponding Series 2020A Aggregate Lease Payments.

4. Warrant Authority. The Participating User acknowledges and agrees that pursuant to the laws of the State, in the event the Participating User fails to make any payment on the date due as required hereunder with respect to the User Equipment, the Department has the immediate right and shall issue a requisition for a warrant to draw such amount(s) as are due from any funds available to the Participating User to make such payments.

5. Security Interest. The Participating User acknowledges that the User Equipment subject to the Equipment Schedule under this User Agreement shall be subject to a security interest in favor of Lessor and hereby irrevocably authorizes and appoints DFA as its attorney-in-fact to sign Uniform Commercial Code financing statements or such other documents with respect to such User Equipment to perfect the security interest in favor of Lessor. To secure its obligations hereunder, the Participating User does hereby grant a security interest in the User Equipment to DFA and Lessor with respect to any interest it may have in the User Equipment and shall execute such financing statements or any other documents as are requested in order to perfect such security interest.

6. Representations of the Participating User. The Participating User does hereby represent with DFA and for the benefit of Lessor as follows:

- (a) The Participating User is a validly existing agency of the State.
- (b) The User Equipment is of a size, design, capacity and manufacture selected by the Participating User and the Participating User has selected said User Equipment without the assistance of DFA or Lessor. The User Equipment will be located as designated on the Equipment Schedule with respect thereto, and DFA shall be given at least thirty (30) days prior written notice of any change in location of any User Equipment.
- (c) The Participating User's participation in the Program and the execution, delivery and performance by the Participating User of its obligations under this User Agreement and obligations as contained in the Master Lease Agreement as incorporated herein by reference have been duly authorized by all necessary action of the Participating User.
- (d) Contracts in connection with the purchase and installation of the User Equipment have been let pursuant to bid awards made by the Participating User in accordance with all competitive bidding laws applicable to public purchases and installation.
- (e) The User Equipment is essential to the Participating User's proper, efficient and economic functioning or to the services that it provides to the citizens of the State.
- (f) The Participating User has an immediate need for and expects to make immediate use of the User Equipment, which need is not expected to diminish in the foreseeable future.

(g) The User Equipment shall be used by the Participating User only for the purpose of performing one or more of its governmental or proprietary functions consistent with the permissible scope of its authority.

(h) The Participating User intends to utilize the User Equipment for the entire term applicable to such item of User Equipment as specified in the Equipment Schedule applicable thereto and the Participating User reasonably believes that sufficient money will be appropriated for each fiscal year during the lease term applicable to such item of User Equipment to enable the Participating User to make all payments required to be made hereunder. The Participating User certifies that it will request in its budget in the categories of Equipment and Subsidies, or such other category as may be appropriate from time to time for each fiscal year during the lease term for an item of User Equipment, amounts sufficient to make the payments required hereunder for such User Equipment during such fiscal year and shall do any and all things in its power to secure annual appropriation of such amounts. THE PARTICIPATING USER AGREES THAT UNTIL THIS USER AGREEMENT IS TERMINATED AS PROVIDED IN PARAGRAPH 11 HEREOF, FUNDS APPROPRIATED IN THE CATEGORIES OF EQUIPMENT OR SUBSIDIES OR SUCH OTHER CATEGORY AS MAY REPLACE SUCH CATEGORIES FROM TIME TO TIME SHALL FIRST BE OBLIGATED AND ENCUMBERED FOR PAYMENTS REQUIRED TO BE MADE BY THE PARTICIPATING USER HEREUNDER PRIOR TO ANY PURCHASE OR ENCUMBRANCE OF FUNDS IN SUCH CATEGORIES BY THE PARTICIPATING USER FOR ANY OTHER PURPOSE AND THE PARTICIPATING USER HEREBY AUTHORIZES DFA TO ENCUMBER ON THE FIRST DAY OF EACH ALLOTMENT PERIOD OF EACH FISCAL YEAR SUCH FUNDS IN THE APPROPRIATE CATEGORIES AS ARE NECESSARY TO MEET THE PAYMENTS REQUIRED HEREUNDER FOR SUCH ALLOTMENT PERIOD DURING SUCH FISCAL YEAR.

(i) The Participating User hereby covenants that it shall take no action and shall not omit to take any action, the taking or omission of which could cause the interest component of any Lease Payment to fail to be excludible pursuant to section 103(a) of the Internal Revenue Code of 1986, as amended, and the related regulations and rulings (collectively, the “Code”) from the gross income of the recipient thereof for Federal income tax purposes or could cause such interest component to be treated as an item of tax preference within the meaning of section 57(a) of the Code for purposes of the alternative minimum income tax. Without limitation of the covenant contained in the preceding sentence, the Participating User makes and enters into the following specific covenants for the benefit of DFA, the Trustee, and all holders of the Certificates:

- (i) The Participating User shall take no action, and shall not omit to take any action, the effect of which could be to cause this User Agreement, the Master Lease Agreement or the Certificates to be deemed an “arbitrage bond” within the meaning of section 148 of the Code or otherwise cause the interest components of the Lease Payments to be includible in gross income for Federal income tax purposes under existing law or to be subject to income taxation under the laws of the State.
- (ii) During the lease term, the User Equipment will be used by the Participating User only for the purpose of performing one or more governmental or proprietary functions of the Participating User consistent with the permissible scope of the Participating User’s authority and will not be used in a trade or business of any person or entity other than the Participating User.
- (iii) The Participating User shall not lease or otherwise make any of the User Equipment available for use by any other person or entity if such lease or other availability would affect the status of the interest component of the Lease Payments as tax-exempt under

section 103 of the Code for Federal income tax purposes. The Participating User acknowledges that in determining whether the User Equipment is used, directly or indirectly, in the trade or business of any other person for purposes of the preceding sentence, use of the User Equipment pursuant to a lease, management contract or other arrangement must be examined. Without limiting the generality of the covenant set forth in the initial sentence of this clause (iii), the Participating User agrees that it will not enter into any lease, management contract or other arrangement between the Participating User and any other person with respect to the User Equipment unless such arrangement satisfies the guidelines set forth in Rev. Proc. 97-13, as such guidelines are amended in accordance with the provisions of the Tax Reform Act of 1986.

- (iv) The Participating User agrees to comply with the provisions of section 148(f) of the Code. In such regard, the Participating User acknowledges that certain investment earnings on funds, including a proportionate amount of the funds held in the Acquisition Fund held on its behalf, may be subject to “rebate” to the United States Treasury pursuant to section 148(f) of the Code and regulations promulgated thereunder. The Participating User agrees to pay to Lessee all amounts subject to such rebate. The obligation of the Participating User to make such payments is unconditional and is not limited to funds received by the Participating User pursuant to this User Agreement or income from the investment thereof or any other particular source.

(j) The Participating User shall keep the User Equipment insured against loss, theft, damage and destruction for not less than the full insurable value thereof and such insurance shall either contain a standard mortgagee endorsement or shall name Lessor and DFA as loss payee during the lease term applicable to such item of the User Equipment and shall provide that Lessor and DFA receive not less than ten (10) days notice of termination, cancellation or alteration of the terms of such insurance. The Participating User shall provide DFA with certificates of insurance or a statement of self-insurance evidencing the insurance required upon submission of the Request for Disbursement and as requested thereafter from time to time.

(k) The Participating User agrees that for each item of the Equipment described in the Equipment Schedule, the Participating User, at the Participating User’s own cost and expense, shall maintain, preserve and keep such item of the Equipment described in the Equipment Schedule in good repair, working order and condition subject to reasonable wear and tear.

7. Title. Title to the Equipment and all additions, repairs, replacements or modifications thereto, shall be vested in the Participating User, so long as the Participating User is not in default under this User Agreement.

8. Surrender of Equipment; Default. In the event the Participating User fails to make any payments or perform its obligations hereunder (a “Default”) or upon termination due to nonappropriation of funds to the Participating User with respect to any item or items of User Equipment subject hereto, the Participating User agrees that upon notice from DFA or Lessor, the Participating User shall deliver all of the items of the User Equipment subject to this User Agreement to such location as designated by DFA or Lessor, at the Participating User’s expense. In the event of any default hereunder which results in liability to DFA as a result thereof, then the Participating User agrees to immediately transfer into the Fund upon notice such payments required of DFA under the Master Lease Agreement.

9. Nonappropriation. If appropriations for all items of the User Equipment on the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last lease payment for the current fiscal year, the Participating User shall notify in writing the Executive Director

of DFA of such nonappropriation not later than five (5) days prior to the date of the last lease payment for the current fiscal year, and this User Agreement shall terminate with respect to all items of the User Equipment identified on such Equipment Schedule as of the due date of the last lease payment for the current fiscal year due hereunder. The Participating User Lease Payment due on such date shall be paid by the Participating User. Such Equipment Schedule shall be terminated whether the nonappropriation is as to one or more or all items of User Equipment on the Equipment Schedule.

10. Budget and Appropriations Information. Until this User Agreement is terminated the Participating User shall provide to DFA within fifteen (15) days after the end of any fiscal year of the Participating User such certifications and proof of appropriations made to the Participating User for the User Equipment for the ensuing fiscal year on such forms as may be prescribed by DFA from time to time. The Participating User agrees that the funds appropriated shall be encumbered on the first day of each allotment period during such fiscal year as provided in paragraph 6(h), hereof.

11. Termination. This User Agreement shall terminate in its entirety upon the occurrence of the following:

- (a) Appropriations for all items of the Equipment described in the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last Participating User Lease Payment and the Participating User notifies DFA not later than five (5) days prior to the date of the last Participating User Lease Payment for the then current fiscal year;
- (b) There shall have occurred the termination of the lease term of each item of User Equipment; and Participating User shall have paid to DFA all amounts which the Participating User is obligated to pay hereunder; or
- (c) DFA shall not have entered into the Master Lease Agreement on or before March 5, 2020.

12. Prepayment Option/Purchase Option.

(a) Prepayment Option. Pursuant to Section 7.2(a) of the Master Lease Agreement, the Participating User has the option to prepay its obligations under this User Agreement in part, but only in amounts equal to or exceeding \$50,000 per prepayment, at the times and subject to the terms and conditions described in such Section 7.2(a). The Participating User may hereby request DFA to exercise its option to prepay in part by giving DFA at least sixty (60) days notice prior to the applicable prepayment date and by payment or transfer, as directed by DFA, into the Fund of amounts to be so prepaid.

(b) Purchase Option. Pursuant to Section 7.2(b) of the Master Lease Agreement, DFA has the option to purchase all or any portion of the User Equipment, commencing on and after April 15, 2023, and further at the times and subject to the terms and conditions described in such Section 7.2(b). The Participating User may hereby request DFA to exercise its option to purchase all or any portion of the User Equipment under the Master Lease Agreement by giving DFA at least sixty (60) days notice prior to the purchase date and by payment or transfer, as directed by DFA, into the Fund of the applicable Purchase Option Price for such User Equipment.

The Participating User hereby agrees that if it requests DFA to exercise its option to purchase all or any part of the User Equipment, the Purchase Option Price shall be calculated by Lessor and provided to the Participating User and DFA.

Upon proper notice and transfer to the Fund of the applicable Purchase Option Price and any other amount, if any, owed by the Participating User to DFA with respect to such User Equipment and upon

payment of the applicable Purchase Option Price by DFA to Lessor and payment by DFA to Lessor of all other amounts, if any, owed by Lessor with respect to such User Equipment, this User Agreement shall terminate as to the items of User Equipment so purchased. In such event, Lessor shall warrant, subject to the terms and provisions of the Trust Agreement, to Lessee that the item or items of User Equipment listed on this User Agreement and related Equipment Schedule are free and clear of any liens created by Lessor. Lessor has agreed in the Master Lease Agreement to execute any certificate that DFA may reasonably request to convey to DFA any and all interest that Lessor may have with respect to such User Equipment.

13. Binding Effect. The conditions, terms, provisions and covenants contained in this User Agreement shall apply to and inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. The Participating User has no interest in the User Equipment other than the possession and use thereof during the term as provided in the Equipment Schedule with respect to any item of User Equipment and except as specifically set forth herein, cannot pledge, mortgage or grant a security interest in any item of the User Equipment.

14. Notices. All notices, demands and requests which may or are required to be given hereunder shall be in writing and shall be deemed to have properly been given and received when served personally, transmitted by facsimile or telecopy or when mailed postage prepaid by first class mail, registered or certified, to the address and attention of the representative designated for such party on the signature page hereof, until otherwise notified of a change in address for such party.

15. Further Assurances and Agreements. The Participating User will properly execute and deliver to DFA such further documents and take such further actions as DFA may reasonably request in order to effectively carry out the intent and purposes of this User Agreement and participation by the Participating User in the Program.

16. Defined Terms. Unless otherwise defined herein, all terms having a defined meaning in the Master Lease Agreement shall have the same meaning as used herein.

17. Defeasance. Notwithstanding any provision herein to the contrary, the Participating User may elect to defease, in whole or in partial amounts equal to or exceeding \$50,000 of its respective obligations hereunder by irrevocably depositing with the Lessee, for further deposit with the Trustee (i) moneys sufficient (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due, and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due and payable. In this section, "Government Obligations" means United States Treasury Notes, bonds, bills, or certificates of indebtedness, including State and Local Government Series securities, or other obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

The exercise of the option to defease in whole or in part hereunder will not affect any of the covenants, agreements, or other obligations of the Participating User hereunder, including the obligation to continue to make the Participating User Lease Payments hereunder to the extent the moneys on deposit for such defeasance are insufficient for such purpose.

In the event that the Participating User exercises its option to defease in accordance with this Section 17, DFA shall warrant, subject to the terms and provisions of the Trust Agreement, to the Participating User that the item or items of Equipment related to such defeasance and listed on this User Agreement and Exhibit A hereto are free and clear of any liens created by DFA, to the extent so defeased.

DFA agrees to execute any certificate that the Participating User may reasonably request to convey to the Participating User any and all interest that DFA may have with respect to such Equipment.

IN WITNESS WHEREOF, this User Agreement has been executed by the parties hereto by their duly authorized representatives.

**DEPARTMENT:**

**STATE OF MISSISSIPPI,**  
represented by and acting through  
the State of Mississippi  
Department of Finance and Administration  
501 North West Street, Suite 1301  
P.O. Box 267 (39205)  
Jackson, Mississippi 39201  
Attn: Interim Executive Director  
Phone: (601) 359-3402  
[Liz.Welch@dfa.ms.gov](mailto:Liz.Welch@dfa.ms.gov)

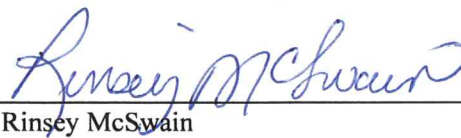
By: \_\_\_\_\_

  
Liz Welch  
Interim Executive Director

**PARTICIPATING USER:**

**ELLISVILLE STATE SCHOOL**  
1101 Highway 11 South  
Ellisville, Mississippi 39437  
Attn: Rinsey McSwain  
Director  
Phone: (601) 477-5595  
[Rinsey.McSwain@ess.ms.gov](mailto:Rinsey.McSwain@ess.ms.gov)

By: \_\_\_\_\_

  
Rinsey McSwain  
Director

**Exhibit "A"**  
The Equipment Schedule

***ELLISVILLE STATE SCHOOL***

• HP Desktop Computers	\$ 154,600
• Fujitsu ScanSnap Scanners	14,250
• Meraki Network Switches	22,400
• Meraki Wireless Access Points	8,750
• Netsmart Electronic Medical Record Software and required installation	<u>677,532</u>

***Total equipment to be acquired by***

***ELLISVILLE STATE SCHOOL (five-year term)***

***\$877,532***

**Exhibit “B”**

Request for Disbursement

**SERIES 2020A REQUEST FOR DISBURSEMENT NO.:**\_\_\_\_\_

REFERENCE: Master Lease Purchase Agreement (“Master Lease Agreement”), dated as of March 5, 2020, made and entered into by and between the **State of Mississippi**, Represented and Acting by and through the State of Mississippi Department of Finance and Administration (“Lessee”) and First Southwest Leasing Company (“Lessor”), and the Series 2020A Participating User Agreement (“User Agreement”), dated as of March 5, 2020, made and entered into by and between the Lessee and **Ellisville State School** (the “Participating User”).

1. The undersigned hereby certifies that:

- (a) This Request for Disbursement is in accordance with the Master Lease Agreement and the User Agreement and is either (check one of the following):
  - ( ) for payment to the vendor of the Equipment or the items thereof described on Attachment “A” hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment “B”; or
  - ( ) for payment of a reimbursement to the issuer or agency thereof for the Equipment or the items thereof described on Attachment “A” hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment “B”, and payment remitted to the vendor (evidence of such payment is attached hereto); or
  - ( ) The Equipment has not been finally accepted; and, the disbursement is in payment of a progress payment authorized under the Master Lease Agreement and the User Agreement; or
  - ( ) The amount requested for payment is for payment or reimbursement for a progress payment for a portion of the Cost of a Project Financing.
- (b) The amount to be disbursed on this Request for Disbursement has not formed the basis of a previous request for payment and is due and owing.

2. Attached to this Request for Disbursement are the following (check each item attached) each of which is true and correct in all respects.

- ( ) a copy of the invoice of the vendor;
- ( ) a copy of the applicable purchase order and any change order issued in connection with the applicable purchase order;
- ( ) a copy of the bill of sale for each item of the Equipment for which a bill of sale may be delivered;
- ( ) a copy of the title or title application for each item of the Equipment for which a title is issued (title must list **U.S. Bank National Association, as trustee**, P.O. Box 4026, Brandon, Mississippi 39047, as lienholder; lienholder number "90018867500");
- ( ) a copy of any Certificate of Insurance or statement of self-insurance required under the Master Lease Agreement or User Agreement;
- ( ) if disbursement is requested in reimbursement of lawfully available funds previously expended by Lessee or the Participating User, a copy of the executed Declaration of Intent evidencing Lessee's intent to reimburse its funds with the proceeds of tax-exempt obligations.

3. Please disburse the following amount to the following Payee:

Payee: \_\_\_\_\_

Amount: \_\_\_\_\_

Address: \_\_\_\_\_

Invoice

No(s): \_\_\_\_\_

4. No event of default, as such term is defined in the Master Lease Agreement or the User Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

5. By executing this Request for Disbursement, the Participating User reaffirms all representations and covenants contained in the User Agreement as of the date hereof.

**EXECUTED** as of \_\_\_\_\_.

**ELLISVILLE STATE SCHOOL**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Attachment “A”**

**The Accepted Equipment**

**Attachment "B"**  
**Form of Acceptance Certificate**

**DATE:** \_\_\_\_\_

Re: Master Lease Purchase Agreement ("Master Lease Agreement"), dated as of March 5, 2020, and entered into by and between the **State of Mississippi**, represented and acting by and through the State of Mississippi Department of Finance and Administration ("Lessee") and **First Southwest Leasing Company**, ("Lessor"), and the Series 2020A Participating User Agreement ("User Agreement"), dated as of March 5, 2020, made and entered into by and between the Lessee and **Ellisville State School** (the "Participating User"). Unless otherwise defined herein, all terms shall have the meaning ascribed thereto by the Master Lease Agreement.

Gentlemen:

Please refer to the above-described Master Lease Agreement and User Agreement. In accordance with the terms of the Master Lease Agreement and the User Agreement, the Participating User hereby certifies and represents to, and agrees with, Lessor as follows:

A. The Equipment described on the preceding **Attachment A** has been delivered and installed at the Equipment Location and such delivery and installation have been completed on or before the date hereof.

B. The Participating User has conducted such inspection and/or testing of the Equipment as it deems necessary and appropriate and hereby acknowledges that it accepts the Equipment for all purposes effective the date hereof.

C. No event of default, as such term is defined in the Master Lease Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

D. The Equipment described on the preceding **Attachment A** is covered against all risks pursuant to the policy of the insurance evidenced by the certificate of insurance attached hereto or is insured pursuant to a program of self insurance as required by the Master Lease Agreement and the User Agreement.

Yours truly,

**ELLISVILLE STATE SCHOOL**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Exhibit “C”**

**The Series 2020A Participating User Lease Payment Schedule**

Equipment Amount	\$877,532
Maximum Length of Lease	Five (5) years
Annual Percentage Rate	2.97% (approximate APR)
Dated Date	March 5, 2020

<b><u>Payment Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Amount</u></b>	<b><u>Total Payment</u></b>
4/10/2020	\$91,424.25	\$2,533.87	\$93,958.12
10/10/2020	82,284.43	11,673.69	93,958.12
4/10/2021	83,506.34	10,451.78	93,958.12
10/10/2021	84,746.42	9,211.70	93,958.12
4/10/2022	86,004.90	7,953.22	93,958.12
10/10/2022	87,282.07	6,676.05	93,958.12
4/10/2023	88,578.21	5,379.91	93,958.12
10/10/2023	89,893.60	4,064.52	93,958.12
4/10/2024	91,228.52	2,729.60	93,958.12
10/10/2024	92,583.26	1,374.86	93,958.12
<b>TOTALS</b>	<b><u>\$877,532.00</u></b>	<b><u>\$62,049.20</u></b>	<b><u>\$939,581.20</u></b>

**CLOSING CERTIFICATE OF  
ELLISVILLE STATE SCHOOL**

I, the undersigned, do hereby certify that I am a duly elected or appointed or authorized official of **ELLISVILLE STATE SCHOOL**, a body corporate of the State of Mississippi (the “Agency User”), that I hold the office set forth below my signature, and that I am hereby executing and delivering this certificate for the benefit of all persons interested in that certain Series 2020A Participating User Agreement (the “User Agreement”), dated as of March 5, 2020, by and between the Agency User and the State of Mississippi, represented by and acting through the Department of Finance and Administration. The User Agreement and all other documents, certificates or instruments executed or delivered by the Agency User in connection therewith are referred to herein collectively as the “Financing Documents”. Terms defined in the User Agreement are used in this certificate with the same meanings as in the User Agreement. I do hereby further certify that:

1. I am familiar with and have personal knowledge of the matters hereinafter stated.
2. The Agency User is a duly organized and validly existing agency of the State of Mississippi.
3. Each person signing the Financing Documents on behalf of the Ellisville State School to which the Agency User is a party, is a duly elected or appointed, qualified and acting officer of the Agency User holding the office set forth below such person’s signature, and each such person’s signature appearing thereon is true and genuine.
4. To the best of my knowledge, (i) the representations and warranties of the Agency User in the Financing Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (ii) the Agency User has complied with all terms on its part to be performed or satisfied by it under the Financing Documents, at or prior to the date hereof, and (iii) the Financing Documents remain in full force and effect and no default or breach, or other event that, with the giving of notice or the passage of time or both, would become a default or breach, has occurred thereunder.
5. Each of the Financing Documents has been duly executed and delivered by or on behalf of the Agency User and constitutes a legal, valid and binding obligation of the Agency User enforceable in accordance with its terms.
6. Except as have been obtained and are in full force and effect as of the date hereof, no governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery by the Agency User of the Financing Documents or the acquisition of the Series 2020A Equipment (the “Equipment”).
7. The Agency User has taken all actions necessary to appropriate or otherwise provide for all amounts required to be paid under the Financing Documents during the Agency User’s current fiscal period ending June 30, 2020, and the Agency User has or expects to have sufficient unexhausted funds to make such payments as the same become due.

8. To the best of my knowledge no litigation is pending or threatened in any court to restrain or enjoin the execution or delivery of the Financing Documents or the payment of the Lease Payments, or in any way contesting or affecting the validity of the Financing Documents, or contesting the powers of the Agency User or contesting the authorization of the Financing Documents or which, if adversely determined, will have a material, adverse effect on the ability of the Agency User to perform its obligations under the Financing Documents.
9. The Equipment will be used by the Agency User only for the purpose of performing one or more of its governmental functions consistent with the permissible scope of its authority. No portion of the Equipment will be leased to or operated by any person in connection with a non-governmental trade or business.
10. The Equipment is essential to the proper, efficient and economic functioning of the Agency User and to the services that the Agency User provides. The Agency User has an immediate need for and expects to make immediate use of substantially all the Equipment, which use is not temporary or expected to diminish in the foreseeable future.

**EXECUTED** as of March 5, 2020.

**ELLISVILLE STATE SCHOOL**

By:   
Rinsey McSwain  
Director

March 5, 2020

First Southwest Leasing Company  
1201 Elm Street, Suite 3500  
Dallas, Texas 75270

Re: Series 2020A Agency User Agreement, dated as of March 5, 2020, by and between the **State of Mississippi**, represented by and acting through its Department of Finance and Administration, and **Ellisville State School**

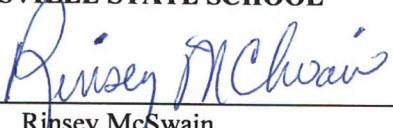
Ladies and Gentlemen:

Outlined below is the invoicing procedure we have elected in connection with above-referenced Lease:

- A. Number of invoice copies required: **2**
- B. Submit invoices to:  
**Ellisville State School**  
**1101 Highway 11 South**  
**Ellisville, Mississippi 39437**  
**Attention: Dana Watson, Business Services Director**  
**Phone: 601.477.5607; [Dana.Watson@ess.ms.gov](mailto:Dana.Watson@ess.ms.gov)**
- C. Information required on invoice for identification purposes:  
**State Treasurer Fund 3212**  
**(Agency Number 130, Vendor Number V9913031320)**  
**Department of Finance and Administration**  
**Attention: Office of Budget and Accounting; Reginald Welch**  
**1301 Woolfolk Building, Suite B**  
**501 North West Street**  
**Jackson, Mississippi 39201**  
**Mississippi Master Lease Purchase Program, Series 2020A**  
**Please process this invoice as a GT document. When accepted, forward one copy of GT document and invoice to the DFA address shown above. THANK YOU!!**
- D. Trustee Information:  
**U.S. Bank National Association**  
**6810 Crumpler Blvd., Suite 200**  
**Olive Branch, Mississippi 38654**  
**Attention: Wally Duke, Vice President**  
**Phone: 662-383-5847; [wallace.duke@usbank.com](mailto:wallace.duke@usbank.com)**
- E. For internal processing, receipt of invoice at least **forty-five (45)** days prior to payment date is required.

Sincerely,

**ELLISVILLE STATE SCHOOL**

By:   
Rinsey McSwain  
Director

2080106279

File Number: 20203190567A

Date Filed: 3/13/2020 3:33:49 PM

Michael Watson

Secretary of State

## UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) <b>Vickie Hall</b> (214) 953-8874	
B. EMAIL CONTACT AT FILER (optional) <b>vickie.hall@hilltopsecurities.com</b>	
C. SEND ACKNOWLEDGMENT TO: (Name and Address)  <b>Hilltop Securities Inc.</b> <b>1201 ELM ST STE 3500</b> <b>DALLAS, TX 75270-2108</b>	

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor Name (1a or 1b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION NAME OR <b>Ellisville State School</b>				
1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
1c. MAILING ADDRESS <b>1101 HIGHWAY 11 S</b>	CITY <b>ELLISVILLE</b>	STATE <b>MS</b>	POSTAL CODE <b>39437</b>	COUNTRY <b>USA</b>

2. DEBTOR'S NAME: Provide only one Debtor Name (2a or 2b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION NAME OR				
2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
2c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

3. SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION NAME OR <b>State of Mississippi acting through its Department of Finance and Administration</b>				
3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)		SUFFIX
3c. MAILING ADDRESS <b>PO BOX 267</b>	CITY <b>JACKSON</b>	STATE <b>MS</b>	POSTAL CODE <b>39205</b>	COUNTRY <b>USA</b>

4. COLLATERAL: This financing statement covers the following collateral:

Each item of equipment acquired or to be acquired or refinanced for use by Ellisville State School under the Series 2020A Master Lease Program dated as of March 5, 2020, including, but not limited to, computers and other technology equipment including desktop computers, scanners, switches, wireless access points and medical record software and required installation (5-year lease term with an aggregate equipment cost of \$877,532); together with any and all additions, attachments, and accessions to any of the equipment listed hereon, any and all proceeds of any sale, assignment, lease, sublease, or rental of any of the equipment listed hereon, and any and all proceeds of any insurance settlement or recovery with respect to any of the equipment listed hereon.

5. Check only if applicable and check only one box: Collateral is ☐ held in a Trust (see UCC1Ad item 17 and instructions) ☐ being administered by a Decedent's Personal Representative

6a. Check only if applicable and check only one box:

☐ Public-Finance Transaction ☐ Manufactured Home Transaction ☐ A Debtor is a Transmitting Utility

6b. Check only if applicable and check only one box:

☐ Agricultural Lien ☐ Non-UCC Filing

7. ALTERNATIVE DESIGNATION (if applicable) ☐ Lessee/Lessor ☐ Consignee/Consignor ☐ Seller/Buyer ☐ Bailee/Bailor ☐ Licensee/Licenser

8. OPTIONAL FILER REFERENCE DATA

**2020 - Ellisville State School**

**A RESOLUTION OF THE BOARD OF TRUSTEES OF THE  
COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT  
AUTHORIZING PARTICIPATION IN  
THE STATE OF MISSISSIPPI MASTER LEASE PURCHASE PROGRAM  
IN AN AMOUNT NOT TO EXCEED  
FOUR HUNDRED THOUSAND AND NO/100 DOLLARS (\$400,000) FOR THE  
PURPOSE OF PROVIDING FUNDS TO ACQUIRE  
CERTAIN PERSONAL PROPERTY AND OTHER EQUIPMENT;  
APPROVING THE FORM OF AND EXECUTION OF THE USER AGREEMENT,  
PROCEEDS CERTIFICATE, CLOSING CERTIFICATE  
AND RELATED DOCUMENTS AND CERTIFICATES;  
AND FOR RELATED PURPOSES**

**WHEREAS**, the Board of Trustees (the "Board") of the Copiah-Lincoln Community College District of the State of Mississippi (the "District") took up for consideration the matter of financing the acquisition of certain essential use equipment including computer technology equipment (collectively, the "Equipment") for equipping its community and junior colleges; and

**WHEREAS**, the District is authorized under the provisions of Section 31-7-10(16) of the Mississippi Code of 1972, as amended (the "Master Lease Statute"), to participate in the State of Mississippi Master Lease Program and to enter into such lease agreements with the State of Mississippi Department of Finance and Administration ("DFA") and other documents for the acquisition and financing of the Equipment; and

**WHEREAS**, the Board estimates that the contemplated costs of acquiring the Equipment will not exceed Four Hundred Thousand and No/100 Dollars (\$400,000); and

**WHEREAS**, the Board finds and determines that it is necessary for the education and well-being of the students of the District to acquire the Equipment; and

**WHEREAS**, it is necessary, proper and economically feasible that the Board participate in the State of Mississippi Master Lease Program for the purpose of acquiring the Equipment for the Copiah-Lincoln Community College (the "College") pursuant to the Master Lease Statute for the purposes herein stated and under the procedures hereinafter set forth and in the Master Lease Statute, and as otherwise provided by law; and

**WHEREAS**, the Board reasonably expects that it will incur expenditures in connection with the Equipment prior to the execution of a User Agreement (defined below) for which it intends to reimburse itself with the proceeds of tax-exempt Certificates of Participation delivered in connection with the User Agreement, the proceeds of which will be used to finance those expenditures. This declaration of official intent to reimburse expenditures made prior to the execution of said User Agreement and in anticipation of the execution of said User Agreement and the sale of the Certificates of Participation is made pursuant to Department of Treasury Regulation Section 1.150-2. The maximum principal amount expected to be financed for the acquisition of the Equipment is Four Hundred Thousand Dollars (\$400,000); and

**WHEREAS**, there have been submitted to this meeting the forms of

(a) a Participating User Agreement (the "User Agreement") providing the terms and conditions of acquiring the Equipment through the State of Mississippi Master Lease Program;

- (b) a Proceeds Certificate; and
- (c) a Closing Certificate;

**WHEREAS**, it appears that each of the documents above referred to, which documents are now before the Board, is in appropriate form and is an appropriate document for the purposes identified; and

**WHEREAS**, all conditions, acts and things required by the Master Lease Statute, and the Constitution and the laws of the State of Mississippi to have existed, to have happened, and to have been performed precedent to and in connection with the adoption of this resolution, approving the form of the User Agreement and the execution of the User Agreement, the Proceeds Certificate and the Closing Certificate, have happened and have been performed in regular and due time, form and manner as required by law; and

**WHEREAS**, it is proposed that the District should take all such additional actions, authorize the execution of such certificates, documents and any other related documents as are necessary to participate in the Master Lease Program, and authorize such other actions and proceedings as shall be necessary in connection with the User Agreement; and

**WHEREAS**, it has now become necessary that the Board proceed to make provision for the execution and delivery of the User Agreement, the Proceeds Certificate, the Closing Certificate and any other related documents as are necessary to participate in the Master Lease Program.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT:**

Section 1. The foregoing Recitals are hereby incorporated and made a part of this Resolution.

Section 2. This resolution is adopted pursuant to the Constitution and the laws of the State.

Section 3. The Board of Trustees hereby authorizes and approves the lease purchase of certain equipment in an amount not to exceed Four Hundred Thousand and No/100 Dollars (\$400,000) subject to the provisions of this resolution and the User Agreement, all in accordance with the Master Lease Statute. All terms and provisions of the lease purchase of the Equipment including the interest rate thereon and the lease payment schedule thereof shall be as set forth in the User Agreement.

Section 4. The principal and interest on the User Agreement shall be payable over a period not to exceed four (4) years, solely from funds appropriated to the District for such purpose and shall be subject to prepayment as set forth in the User Agreement. The lease payments to be paid under the User Agreement shall not constitute an indebtedness of the District within the meaning of any constitutional or statutory restrictions, limitations, or provisions, and the taxing power of the District will not be pledged to the payment of the lease payments, but the same, together with the interest thereon, shall be payable solely from funds appropriated by the District for such purpose, subject to the ability of DFA to intercept any funds appropriated to the community and junior college districts in the State appropriations for the use and support of the community and junior colleges and to be allocated for the District in the event that a District fails to timely make its payments as required under the User Agreement, as provided therein and in the Master Lease Statute.

Section 5. The District reasonably expects that it will incur expenditures in connection with the Equipment prior to the execution of the User Agreement, for which it intends to reimburse itself with the proceeds of tax-exempt Certificates of Participation delivered in connection with the User Agreement,

the proceeds of which will be used to finance those expenditures. This Authorizing Resolution is intended to declare the Board's official intent to reimburse expenditures made prior to the execution of said User Agreement and in anticipation of the execution of said User Agreement and the sale of the Certificates of Participation and is made pursuant to Department of Treasury Regulation Section 1.150-2. The maximum principal amount expected to be financed for the acquisition of the Equipment is Four Hundred Thousand Dollars (\$400,000).

Section 6. The form of the User Agreement is attached hereto as Exhibit A, shall be, and the same hereby is, approved in substantially said form. The Board hereby authorizes and directs the President of the College to execute and deliver the User Agreement with such changes, insertions, and omissions as may be necessary to carry out the purposes of the User Agreement. All provisions of the User Agreement, when executed as authorized herein, shall be incorporated herein, and shall be deemed a part of this resolution fully and to the same extent as if separately set out verbatim herein. The President of the College is hereby authorized and directed to approve the principal amortization schedule for the User Agreement within the provisions of the User Agreement and the Master Lease Statute.

Section 7. The form of the Proceeds Certificate and the Closing Certificate in the form submitted to this meeting and attached hereto as Exhibits B and C, respectively, shall be, and the same hereby are, approved in substantially said form. The Board hereby authorizes and directs the President of the College to execute and deliver the Proceeds Certificate, the Closing Certificate and other related documents and certificates as are necessary for participating in the Master Lease Program, with such changes, insertions, and omissions as be necessary to carry out the purposes of the User Agreement, said execution being conclusive evidence of such approval. All provisions of the Proceeds Certificate and the Closing Certificate, when executed as authorized herein, shall be incorporated herein, and shall be deemed a part of this resolution fully and to the same extent as if separately set out verbatim herein.

Section 8. Except as otherwise expressly provided herein, nothing in this resolution or the User Agreement, express or implied, is intended or shall be construed to confer upon any person or firm or corporation other than the District or DFA, any right, remedy or claim, legal or equitable, under and by reason of this resolution or any of the provisions hereof or the User Agreement or any provision thereof. This resolution, the User Agreement, and all of their provisions are intended to be and shall be for the sole and exclusive benefit of the District and DFA.

Section 9. In case any one or more of the provisions of this resolution, the User Agreement, the Proceeds Certificate and the Closing Certificate shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any of the other provisions of this resolution, the User Agreement, the Proceeds Certificate, or the Closing Certificate but this resolution, the User Agreement, the Proceeds Certificate, and the Closing Certificate shall be construed and enforced as if such illegal or invalid provision or provisions had not been contained therein. The terms and conditions set forth in the User Agreement, the Proceeds Certificate, and the Closing Certificate are all commitments and agreements on the part of the District and the validity or the invalidity of the User Agreement, the Proceeds Certificate, and the Closing Certificate shall not affect the commitments on the part of the District contained in this resolution, it being the intention hereof that such commitments on the part of the District are binding as if contained in this resolution separate and apart from the User Agreement, the Proceeds Certificate, and the Closing Certificate.

Section 10. The District, by its authorization of the participation in the Master Lease Program and its direction to the President of the College to execute the User Agreement, covenants, agrees and authorizes DFA to withhold all or any part of any funds allocated for the District in the State appropriations for the use and support of the District in amounts sufficient to pay any payment due to DFA pursuant to the User Agreement and not timely made by the District.

Section 11. From and after the execution and delivery of the documents hereinabove authorized, the proper officers, agents and employees of the District are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of said documents as executed and are further authorized to take any and all further actions and execute and deliver any and all other documents and certificates as may be necessary or desirable in connection with the Master Lease Program and the execution and delivery of the User Agreement, the Proceeds Certificate, and the Closing Certificate or other documents necessary to conclude the User Agreement, from time to time, and to document the District's compliance with the Act.

Section 12. The President of the College is hereby authorized to obtain an appropriate signature on, and cause to be filed a completed I.R.S. Form 8038-G "Information Return for Governmental Obligations" as required by Section 149(e) of the Internal Revenue Code of 1986, as amended.

Section 13. The Chairman of the Board, the Secretary of the Board, any other member of the Board, the President of the College and any other officer of the District are each hereby authorized and directed to do all such acts and things and to execute all such documents as may be necessary or advisable in connection with the User Agreement.

Section 14. If any one or more of the provisions of this resolution shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any of the other provisions of this resolution, but this resolution shall be construed and enforced as if such illegal or invalid provision or provisions had not been contained herein.

Section 15. For cause, this resolution shall become effective immediately upon the adoption thereof.

ADOPTED this 6<sup>th</sup> day of Feb, 2020.

**COPIAH-LINCOLN COMMUNITY COLLEGE  
DISTRICT**

By: Tommy Casser  
Tommy Casser  
Chairman of the Board of Trustees

STATE OF MISSISSIPPI §  
§  
COUNTY OF LINCOLN §

### CERTIFICATE OF RESOLUTION

I, the undersigned Secretary of the Board of Trustees of (the "Board") of Copiah-Lincoln Community College District (the "District"), do hereby make, execute and deliver this certificate for the benefit of all persons interested in the actions and proceedings of the Board of the District. I DO HEREBY CERTIFY as follows:

1. On the 6<sup>th</sup> day of Feb, 2020, the Board convened in regular session at its regular meeting place (the "Meeting"), the duly constituted members of the Board being as follows:

Tommy Sasser, Chairman  
Roy Winkworth, Vice Chairman  
Steve Amos, Secretary  
Steven Ammann  
Eugene Bates  
Ray Brown  
Fred Butcher  
Jack Case  
Mary Cleveland  
Rickey Clopton  
Chris Dunn ✓  
Lynwood Easterling  
Chuck Gilbert  
Adrian Hammitte ✓

Willie Harrison  
Titus Hines  
Joyce Johnson  
Tommy Jolly ✓  
Chris Kent ✓  
Melton King  
Randall Lofton  
Mickey Myers ✓  
Greg Paes  
Johnny Pyles ✓  
Roland Ross  
Troy Stewart  
Barry Tyson

and all of such persons were present at the Meeting, except the following: \_\_\_\_\_, thus constituting a quorum. Among other business considered at the Meeting, the attached resolution (the "Resolution") entitled:

**A RESOLUTION OF THE BOARD OF TRUSTEES OF THE  
COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT  
AUTHORIZING THE PARTICIPATION IN  
THE STATE OF MISSISSIPPI MASTER LEASE PURCHASE PROGRAM  
IN AN AMOUNT NOT TO EXCEED  
FOUR HUNDRED THOUSAND AND NO/100 DOLLARS (\$400,000) FOR THE  
PURPOSE OF PROVIDING FUNDS TO ACQUIRE  
CERTAIN PERSONAL PROPERTY AND OTHER EQUIPMENT;  
APPROVING THE FORM OF AND EXECUTION OF THE USER AGREEMENT,  
PROCEEDS CERTIFICATE, CLOSING CERTIFICATE AND  
RELATED DOCUMENTS AND CERTIFICATES;  
AND FOR RELATED PURPOSES.**

was introduced and submitted to the Board for passage and adoption. After presentation and due consideration of the Resolution, a motion was made by Trustee Steven Ammann that the Resolution be finally passed and adopted. The motion was seconded by Trustee Dr. Troy Stewart and carried by the following vote:

14 voted "For" \_\_\_\_\_ voted "Against" \_\_\_\_\_ Abstained

all as shown in the Official Minutes of the Board for the Meeting.

2. The attached Resolution is a true and correct copy of the original on file in the official records of the District, the duly qualified and acting members of the Board of the District on the date of the Meeting are those persons shown above, and, according to the records of my office, each member of the Board was given actual notice of the time, place, and purpose of the Meeting, and the Meeting and the deliberation of the aforesaid public business was posted and given in advance thereof in compliance with applicable Mississippi law.

IN WITNESS WHEREOF, I have signed my name officially and affixed the seal of the District, this 17<sup>th</sup> day of Feb., 2020.

[SEAL]



By: Amber N. Britt  
Title: Notary Public

## SERIES 2020A PARTICIPATING USER AGREEMENT

This **SERIES 2020A PARTICIPATING USER AGREEMENT** (this “User Agreement”), dated as of March 5, 2020, is made and entered into by and between the **COPIAH-LINCOLN COMMUNITY COLLEGE**, a duly organized and validly existing community college district (the “Participating User”) of the State of Mississippi and the **STATE OF MISSISSIPPI**, represented by and acting through the State of Mississippi Department of Finance and Administration (herein referred to as “DFA”).

### RECITALS

WHEREAS, pursuant to the authority granted by Section 31-7-10 of the Mississippi Code of 1972, as amended (the “Mississippi Code”), DFA on behalf of the State of Mississippi (the “State”) is authorized to develop a Master Lease Purchase Program (the “Program”) and to execute on behalf of the State master lease purchase agreements for the purchase of equipment to be used by agencies or departments (each, an “Agency”), or community college districts (each, a “Community College District” or “the District” and together with the Agencies, being herein referred to as the “Participating Users”) of the State of Mississippi; and

WHEREAS, pursuant to such authority and as a part of the Program, DFA on behalf of the State has entered into that certain Series 2020A Master Lease Purchase Agreement (the “Master Lease Agreement”), dated as of March 5, 2020, with First Southwest Leasing Company (“Lessor”), pursuant to which DFA may lease purchase equipment from Lessor for use by Participating Users on the terms and conditions provided therein; and

WHEREAS, the Participating User desires to participate in the Program and to have acquired by lease purchase under the Master Lease Purchase Agreement certain items of equipment which the Participating User shall use on the terms and conditions as provided in this User Agreement.

NOW, THEREFORE, for and in consideration of the foregoing recitals and the covenants and agreements contained herein, the parties do hereby agree as follows:

1. The Series 2020A Participating User Equipment. In consideration of the payments provided herein, and the other covenants contained herein, DFA hereby agrees to acquire by lease purchase under the Master Lease Agreement, for the Participating User’s use, equipment and other personal property (the “User Equipment”) described in the Equipment Schedule(s) attached hereto and incorporated herein by reference as **Exhibit “A”** (collectively, the “Equipment Schedule”) upon the terms and conditions as provided for in this User Agreement. The Participating User certifies by execution hereof that an amount sufficient for payments to be made under this User Agreement has been appropriated for the remainder of the fiscal year in which this User Agreement is executed.

The Participating User further certifies that it has complied with all competitive bidding laws applicable to State purchases and the total purchase price for each piece of User Equipment as set forth in the Equipment Schedule is the firm price as quoted by the successful bidder for such item of User Equipment. The Participating User agrees that it will be responsible for any and all amounts in excess of the “Amount of the Lease Purchase” in the Equipment Schedule for any items of the User Equipment.

2. Payment of the Purchase Price of the User Equipment. Upon receipt and acceptance of an item of User Equipment, the Participating User shall promptly complete and submit to Lessor a Request for Disbursement in the form attached hereto as **Exhibit “B”** together with all attachments required thereby. If funds are to be disbursed by the Trustee simultaneously with the execution and delivery and initial funding of the Master Lease Agreement, a closing statement (the “Closing Statement”) will be delivered to the Trustee at that time. Upon receipt of a Closing Statement or a Request for Disbursement conforming to the requirements of the Master Lease Agreement by Lessor, Lessor shall cause to be disbursed funds for payment of the purchase price of the User Equipment. **The Participating User agrees with respect to the User Equipment described in the Equipment Schedule, that any obligations, covenants or agreements that DFA, as Lessee, has made or which DFA has agreed to cause the Participating User to perform under the Master Lease Agreement, including, without limitation, the obligation to procure insurance coverage with respect to the User Equipment and to pay or cause to be paid, or if requested by Lessor, to reimburse Lessor for, all filing, registration or other similar fees, costs or expenses, other than any fees or expenses of legal counsel to Lessor, incurred by Lessor in connection with the perfection or release of any security interest granted with respect to the User Equipment, shall be deemed an obligation of the Participating User and that the terms and conditions of the Master Lease Agreement applicable to DFA, the User Equipment and the Participating User are in turn binding upon the Participating User as if written herein, provided, however, that if Lessor is so requested by the Participating User, the cost of any such insurance (except self-insurance) and any such filing, registration or other similar fees, costs or expenses, that are known as of the effective date hereof with respect to the User Equipment, may be added to the cost of the User Equipment to be acquired hereunder and financed pursuant to the terms hereof.**

3. Payments. The Participating User agrees that for and in consideration of DFA lease purchase of the User Equipment and use thereof by the Participating User, the Participating User shall on the dates set forth on the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”** (each such date being at least five (5) business days prior to the date on which the corresponding Lease Payment is due to be paid by DFA pursuant to the Master Lease Agreement), transfer into the Master Lease Purchase Repayment Account-Series 2020A (the “Fund”) maintained by the Mississippi State Treasury, the Series 2020A Participating User Lease Payments (the “Participating User Lease Payments”) described in the Participating User Lease Payment Schedule attached hereto as **Exhibit “C”**. If any Participating User Lease Payment is due on a day which is not a business day (“business day” being defined as a day on which the offices of the State and banks located in the State and in the State of Mississippi are not required by law to close), such Participating User Lease Payment shall be due on the next day which is a business day. The Participating User hereby acknowledges and agrees that (i) DFA will aggregate the Participating User Lease Payments with similar payments from other Participating Users and will cause all the Participating User Lease Payments to be paid to the Trustee (as defined in the Master Lease Agreement) on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement, (ii) the Participating User Lease Payments will be applied to make the Series 2020A Aggregate Lease Payments (of which the Participating User Lease Payments will be deemed a part) to the owners of the Certificates in the amounts and on the dates set forth in the Lease Payment Schedule attached to the Master Lease Agreement. In addition, upon notice from DFA, the Participating User shall transfer to the Fund any other payments required to be made by DFA with respect to such User Equipment pursuant to the terms of the Master Lease Agreement.

The Participating User agrees that all payments are due to DFA on the dates indicated on the Participating User Lease Payment Schedule, without offset, abatement or deduction of any amounts whatsoever, notwithstanding the fact that an item or items of User Equipment has not been delivered or accepted, or have been found not to satisfy the needs of the Participating User. The Participating User, at its discretion, may prepay all or any portion equal to or exceeding \$50,000 of the Participating User Lease Payments prior to the respective due dates thereof to DFA. Any Participating User Lease Payment paid to DFA prior to its respective due date will be held in the Fund until such amount is needed to pay the corresponding Series 2020A Aggregate Lease Payments.

4. Warrant Authority. The Participating User acknowledges and agrees that pursuant to the laws of the State, in the event the Participating User fails to make any payment on the date due as required hereunder with respect to the User Equipment, the Department has the immediate right and shall issue a requisition for a warrant to draw such amount(s) from funds allocated for the Participating User in the state appropriations for the use and support of the state's community colleges and to make such payments as are due.

5. Security Interest. The Participating User acknowledges that the User Equipment subject to the Equipment Schedule under this User Agreement shall be subject to a security interest in favor of Lessor and hereby irrevocably authorizes and appoints DFA as its attorney-in-fact to sign Uniform Commercial Code financing statements or such other documents with respect to such User Equipment to perfect the security interest in favor of Lessor. To secure its obligations hereunder, the Participating User does hereby grant a security interest in the User Equipment to DFA and Lessor with respect to any interest it may have in the User Equipment and shall execute such financing statements or any other documents as are requested in order to perfect such security interest.

6. Representations of the Participating User. The Participating User does hereby represent with DFA and for the benefit of Lessor as follows:

- (a) The Participating User is a validly existing community college district of the State.
- (b) The User Equipment is of a size, design, capacity and manufacture selected by the Participating User and the Participating User has selected said User Equipment without the assistance of DFA or Lessor. The User Equipment will be located as designated on the Equipment Schedule with respect thereto, and DFA shall be given at least thirty (30) days prior written notice of any change in location of any User Equipment.
- (c) The Participating User's participation in the Program and the execution, delivery and performance by the Participating User of its obligations under this User Agreement and obligations as contained in the Master Lease Agreement as incorporated herein by reference have been duly authorized by all necessary action of the Participating User.
- (d) Contracts in connection with the purchase and installation of the User Equipment have been let pursuant to bid awards made by the Participating User in accordance with all competitive bidding laws applicable to public purchases and installation.
- (e) The User Equipment is essential to the Participating User's proper, efficient and economic functioning or to the services that it provides to the citizens of the State.
- (f) The Participating User has an immediate need for and expects to make immediate use of the User Equipment, which need is not expected to diminish in the foreseeable future.

(g) The User Equipment shall be used by the Participating User only for the purpose of performing one or more of its governmental or proprietary functions consistent with the permissible scope of its authority.

(h) The Participating User intends to utilize the User Equipment for the entire term applicable to such item of User Equipment as specified in the Equipment Schedule applicable thereto and the Participating User reasonably believes that sufficient money will be appropriated for each fiscal year during the lease term applicable to such item of User Equipment to enable the Participating User to make all payments required to be made hereunder. The Participating User certifies that it will request in its budget in the categories of Equipment and Subsidies, or such other category as may be appropriate from time to time for each fiscal year during the lease term for an item of User Equipment, amounts sufficient to make the payments required hereunder for such User Equipment during such fiscal year and shall do any and all things in its power to secure annual appropriation of such amounts. THE PARTICIPATING USER AGREES THAT UNTIL THIS USER AGREEMENT IS TERMINATED AS PROVIDED IN PARAGRAPH 11 HEREOF, FUNDS APPROPRIATED IN THE CATEGORIES OF EQUIPMENT OR SUBSIDIES OR SUCH OTHER CATEGORY AS MAY REPLACE SUCH CATEGORIES FROM TIME TO TIME SHALL FIRST BE OBLIGATED AND ENCUMBERED FOR PAYMENTS REQUIRED TO BE MADE BY THE PARTICIPATING USER HEREUNDER PRIOR TO ANY PURCHASE OR ENCUMBRANCE OF FUNDS IN SUCH CATEGORIES BY THE PARTICIPATING USER FOR ANY OTHER PURPOSE AND THE PARTICIPATING USER HEREBY AUTHORIZES DFA TO ENCUMBER ON THE FIRST DAY OF EACH ALLOTMENT PERIOD OF EACH FISCAL YEAR SUCH FUNDS IN THE APPROPRIATE CATEGORIES AS ARE NECESSARY TO MEET THE PAYMENTS REQUIRED HEREUNDER FOR SUCH ALLOTMENT PERIOD DURING SUCH FISCAL YEAR.

(i) The Participating User hereby covenants that it shall take no action and shall not omit to take any action, the taking or omission of which could cause the interest component of any Lease Payment to fail to be excludible pursuant to section 103(a) of the Internal Revenue Code of 1986, as amended, and the related regulations and rulings (collectively, the “Code”) from the gross income of the recipient thereof for Federal income tax purposes or could cause such interest component to be treated as an item of tax preference within the meaning of section 57(a) of the Code for purposes of the alternative minimum income tax. Without limitation of the covenant contained in the preceding sentence, the Participating User makes and enters into the following specific covenants for the benefit of DFA, the Trustee, and all holders of the Certificates:

- (i) The Participating User shall take no action, and shall not omit to take any action, the effect of which could be to cause this User Agreement, the Master Lease Agreement or the Certificates to be deemed an “arbitrage bond” within the meaning of section 148 of the Code or otherwise cause the interest components of the Lease Payments to be includible in gross income for Federal income tax purposes under existing law or to be subject to income taxation under the laws of the State.
- (ii) During the lease term, the User Equipment will be used by the Participating User only for the purpose of performing one or more governmental or proprietary functions of the Participating User consistent with the permissible scope of the Participating User’s authority and will not be used in a trade or business of any person or entity other than the Participating User.
- (iii) The Participating User shall not lease or otherwise make any of the User Equipment available for use by any other person or entity if such lease or other availability would affect the status of the interest component of the Lease Payments as tax-exempt under

section 103 of the Code for Federal income tax purposes. The Participating User acknowledges that in determining whether the User Equipment is used, directly or indirectly, in the trade or business of any other person for purposes of the preceding sentence, use of the User Equipment pursuant to a lease, management contract or other arrangement must be examined. Without limiting the generality of the covenant set forth in the initial sentence of this clause (iii), the Participating User agrees that it will not enter into any lease, management contract or other arrangement between the Participating User and any other person with respect to the User Equipment unless such arrangement satisfies the guidelines set forth in Rev. Proc. 97-13, as such guidelines are amended in accordance with the provisions of the Tax Reform Act of 1986.

- (iv) The Participating User agrees to comply with the provisions of section 148(f) of the Code. In such regard, the Participating User acknowledges that certain investment earnings on funds, including a proportionate amount of the funds held in the Acquisition Fund held on its behalf, may be subject to “rebate” to the United States Treasury pursuant to section 148(f) of the Code and regulations promulgated thereunder. The Participating User agrees to pay to Lessee all amounts subject to such rebate. The obligation of the Participating User to make such payments is unconditional and is not limited to funds received by the Participating User pursuant to this User Agreement or income from the investment thereof or any other particular source.

(j) The Participating User shall keep the User Equipment insured against loss, theft, damage and destruction for not less than the full insurable value thereof and such insurance shall either contain a standard mortgagee endorsement or shall name Lessor and DFA as loss payee during the lease term applicable to such item of the User Equipment and shall provide that Lessor and DFA receive not less than ten (10) days notice of termination, cancellation or alteration of the terms of such insurance. The Participating User shall provide DFA with certificates of insurance or a statement of self-insurance evidencing the insurance required upon submission of the Request for Disbursement and as requested thereafter from time to time.

(k) The Participating User agrees that for each item of the Equipment described in the Equipment Schedule, the Participating User, at the Participating User’s own cost and expense, shall maintain, preserve and keep such item of the Equipment described in the Equipment Schedule in good repair, working order and condition subject to reasonable wear and tear.

7. Title. Title to the Equipment and all additions, repairs, replacements or modifications thereto, shall be vested in the Participating User, so long as the Participating User is not in default under this User Agreement.

8. Surrender of Equipment; Default. In the event the Participating User fails to make any payments or perform its obligations hereunder (a “Default”) or upon termination due to nonappropriation of funds to the Participating User with respect to any item or items of User Equipment subject hereto, the Participating User agrees that upon notice from DFA or Lessor, the Participating User shall deliver all of the items of the User Equipment subject to this User Agreement to such location as designated by DFA or Lessor, at the Participating User’s expense. In the event of any default hereunder which results in liability to DFA as a result thereof, then the Participating User agrees to immediately transfer into the Fund upon notice such payments required of DFA under the Master Lease Agreement.

9. Nonappropriation. If appropriations for all items of the User Equipment on the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last lease payment for the current fiscal year, the Participating User shall notify in writing the Executive Director

of DFA of such nonappropriation not later than five (5) days prior to the date of the last lease payment for the current fiscal year, and this User Agreement shall terminate with respect to all items of the User Equipment identified on such Equipment Schedule as of the due date of the last lease payment for the current fiscal year due hereunder. The Participating User Lease Payment due on such date shall be paid by the Participating User. Such Equipment Schedule shall be terminated whether the nonappropriation is as to one or more or all items of User Equipment on the Equipment Schedule.

10. Budget and Appropriations Information. Until this User Agreement is terminated the Participating User shall provide to DFA within fifteen (15) days after the end of any fiscal year of the Participating User such certifications and proof of appropriations made to the Participating User for the User Equipment for the ensuing fiscal year on such forms as may be prescribed by DFA from time to time. The Participating User agrees that the funds appropriated shall be encumbered on the first day of each allotment period during such fiscal year as provided in paragraph 6(h), hereof.

11. Termination. This User Agreement shall terminate in its entirety upon the occurrence of the following:

- (a) Appropriations for all items of the Equipment described in the Equipment Schedule for the ensuing fiscal year have not been made by the 10th day prior to the due date of the last Participating User Lease Payment and the Participating User notifies DFA not later than five (5) days prior to the date of the last Participating User Lease Payment for the then current fiscal year;
- (b) There shall have occurred the termination of the lease term of each item of User Equipment; and Participating User shall have paid to DFA all amounts which the Participating User is obligated to pay hereunder; or
- (c) DFA shall not have entered into the Master Lease Agreement on or before March 5, 2020.

12. Prepayment Option/Purchase Option.

(a) Prepayment Option. Pursuant to Section 7.2(a) of the Master Lease Agreement, the Participating User has the option to prepay its obligations under this User Agreement in part, but only in amounts equal to or exceeding \$50,000 per prepayment, at the times and subject to the terms and conditions described in such Section 7.2(a). The Participating User may hereby request DFA to exercise its option to prepay in part by giving DFA at least sixty (60) days notice prior to the applicable prepayment date and by payment or transfer, as directed by DFA, into the Fund of amounts to be so prepaid.

(b) Purchase Option. Pursuant to Section 7.2(b) of the Master Lease Agreement, DFA has the option to purchase all or any portion of the User Equipment, commencing on and after April 15, 2023, and further at the times and subject to the terms and conditions described in such Section 7.2(b). The Participating User may hereby request DFA to exercise its option to purchase all or any portion of the User Equipment under the Master Lease Agreement by giving DFA at least sixty (60) days notice prior to the purchase date and by payment or transfer, as directed by DFA, into the Fund of the applicable Purchase Option Price for such User Equipment.

The Participating User hereby agrees that if it requests DFA to exercise its option to purchase all or any part of the User Equipment, the Purchase Option Price shall be calculated by Lessor and provided to the Participating User and DFA.

Upon proper notice and transfer to the Fund of the applicable Purchase Option Price and any other amount, if any, owed by the Participating User to DFA with respect to such User Equipment and upon

payment of the applicable Purchase Option Price by DFA to Lessor and payment by DFA to Lessor of all other amounts, if any, owed by Lessor with respect to such User Equipment, this User Agreement shall terminate as to the items of User Equipment so purchased. In such event, Lessor shall warrant, subject to the terms and provisions of the Trust Agreement, to Lessee that the item or items of User Equipment listed on this User Agreement and related Equipment Schedule are free and clear of any liens created by Lessor. Lessor has agreed in the Master Lease Agreement to execute any certificate that DFA may reasonably request to convey to DFA any and all interest that Lessor may have with respect to such User Equipment.

13. Binding Effect. The conditions, terms, provisions and covenants contained in this User Agreement shall apply to and inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. The Participating User has no interest in the User Equipment other than the possession and use thereof during the term as provided in the Equipment Schedule with respect to any item of User Equipment and except as specifically set forth herein, cannot pledge, mortgage or grant a security interest in any item of the User Equipment.

14. Notices. All notices, demands and requests which may or are required to be given hereunder shall be in writing and shall be deemed to have properly been given and received when served personally, transmitted by facsimile or telecopy or when mailed postage prepaid by first class mail, registered or certified, to the address and attention of the representative designated for such party on the signature page hereof, until otherwise notified of a change in address for such party.

15. Further Assurances and Agreements. The Participating User will properly execute and deliver to DFA such further documents and take such further actions as DFA may reasonably request in order to effectively carry out the intent and purposes of this User Agreement and participation by the Participating User in the Program.

16. Defined Terms. Unless otherwise defined herein, all terms having a defined meaning in the Master Lease Agreement shall have the same meaning as used herein.

17. Defeasance. Notwithstanding any provision herein to the contrary, the Participating User may elect to defease, in whole or in partial amounts equal to or exceeding \$50,000 of its respective obligations hereunder by irrevocably depositing with the Lessee, for further deposit with the Trustee (i) moneys sufficient (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due, and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys (in the opinion of an independent certified public accountant acceptable to DFA, First Southwest Leasing, and the Trustee) to pay such obligations as they become due and payable. In this section, "Government Obligations" means United States Treasury Notes, bonds, bills, or certificates of indebtedness, including State and Local Government Series securities, or other obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

The exercise of the option to defease in whole or in part hereunder will not affect any of the covenants, agreements, or other obligations of the Participating User hereunder, including the obligation to continue to make the Participating User Lease Payments hereunder to the extent the moneys on deposit for such defeasance are insufficient for such purpose.

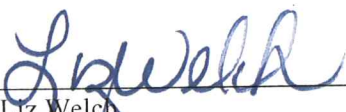
In the event that the Participating User exercises its option to defease in accordance with this Section 17, DFA shall warrant, subject to the terms and provisions of the Trust Agreement, to the Participating User that the item or items of Equipment related to such defeasance and listed on this User Agreement and Exhibit A hereto are free and clear of any liens created by DFA, to the extent so defeased.

DFA agrees to execute any certificate that the Participating User may reasonably request to convey to the Participating User any and all interest that DFA may have with respect to such Equipment.

IN WITNESS WHEREOF, this User Agreement has been executed by the parties hereto by their duly authorized representatives.

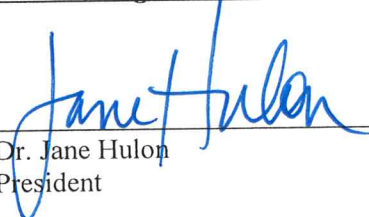
**DEPARTMENT:**

**STATE OF MISSISSIPPI,**  
represented by and acting through  
the State of Mississippi  
Department of Finance and Administration  
501 North West Street, Suite 1301  
P.O. Box 267 (39205)  
Jackson, Mississippi 39201  
Attn: Interim Executive Director  
Phone: (601) 359-3402  
Liz.Welch@dfa.ms.gov

By:   
Liz Welch  
Interim Executive Director

**PARTICIPATING USER:**

**COPIAH-LINCOLN COMMUNITY COLLEGE**  
1001 Copiah-Lincoln Lane  
Wesson, Mississippi 39191  
Attn: Erin Likens  
Purchasing Director  
Phone: (601) 643-8316  
Erin.Likens@colin.edu

By:   
Dr. Jane Hulon  
President

**Exhibit “A”**  
The Equipment Schedule

***COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT***

- Lab computers (quantity 406); lecterns for faculty and staff (quantity 27);
- security camera (quantity 36); iSeries AS40 \$400,000.00

***Total equipment to be acquired by  
COPIAH-LINCOLN COMMUNITY COLLEGE DISTRICT  
four (4)-year term \$400,000.00***

**Exhibit “B”**

Request for Disbursement

**SERIES 2020A REQUEST FOR DISBURSEMENT NO.:**\_\_\_\_\_

REFERENCE: Master Lease Purchase Agreement (“Master Lease Agreement”), dated as of March 5, 2020, made and entered into by and between the **State of Mississippi**, Represented and Acting by and through the State of Mississippi Department of Finance and Administration (“Lessee”) and First Southwest Leasing Company (“Lessor”), and the Series 2020A Participating User Agreement (“User Agreement”), dated as of March 5, 2020, made and entered into by and between the Lessee and **Copiah-Lincoln Community College District** (the “Participating User”).

1. The undersigned hereby certifies that:

- (a) This Request for Disbursement is in accordance with the Master Lease Agreement and the User Agreement and is either (check one of the following):
  - ( ) for payment to the vendor of the Equipment or the items thereof described on Attachment “A” hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment “B”; or
  - ( ) for payment of a reimbursement to the issuer or agency thereof for the Equipment or the items thereof described on Attachment “A” hereto, which items of the Equipment have been accepted as stated in the Acceptance Certificate attached hereto as Attachment “B”, and payment remitted to the vendor (evidence of such payment is attached hereto); or
  - ( ) The Equipment has not been finally accepted; and, the disbursement is in payment of a progress payment authorized under the Master Lease Agreement and the User Agreement; or
  - ( ) The amount requested for payment is for payment or reimbursement for a progress payment for a portion of the Cost of a Project Financing.
- (b) The amount to be disbursed on this Request for Disbursement has not formed the basis of a previous request for payment and is due and owing.

2. Attached to this Request for Disbursement are the following (check each item attached) each of which is true and correct in all respects.

- ( ) a copy of the invoice of the vendor;
- ( ) a copy of the applicable purchase order and any change order issued in connection with the applicable purchase order;
- ( ) a copy of the bill of sale for each item of the Equipment for which a bill of sale may be delivered;
- ( ) a copy of the title or title application for each item of the Equipment for which a title is issued (title must list **U.S. Bank National Association, as trustee**, P.O. Box 4026, Brandon, Mississippi 39047, as lienholder; lienholder number "90018867500");
- ( ) a copy of any Certificate of Insurance or statement of self-insurance required under the Master Lease Agreement or User Agreement;
- ( ) if disbursement is requested in reimbursement of lawfully available funds previously expended by Lessee or the Participating User, a copy of the executed Declaration of Intent evidencing Lessee's intent to reimburse its funds with the proceeds of tax-exempt obligations.

3. Please disburse the following amount to the following Payee:

Payee: \_\_\_\_\_

Amount: \_\_\_\_\_

Address: \_\_\_\_\_

Invoice

No(s): \_\_\_\_\_

4. No event of default, as such term is defined in the Master Lease Agreement or the User Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

5. By executing this Request for Disbursement, the Participating User reaffirms all representations and covenants contained in the User Agreement as of the date hereof.

**EXECUTED** as of \_\_\_\_\_.

**COPIAH-LINCOLN COMMUNITY COLLEGE  
DISTRICT**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Attachment “A”**

**The Accepted Equipment**

**Attachment "B"**  
**Form of Acceptance Certificate**

**DATE:** \_\_\_\_\_

Re: Master Lease Purchase Agreement ("Master Lease Agreement"), dated as of March 5, 2020, and entered into by and between the **State of Mississippi**, represented and acting by and through the State of Mississippi Department of Finance and Administration ("Lessee") and **First Southwest Leasing Company**, ("Lessor"), and the Series 2020A Participating User Agreement ("User Agreement"), dated as of March 5, 2020, made and entered into by and between the Lessee and **Copiah-Lincoln Community College District** (the "Participating User"). Unless otherwise defined herein, all terms shall have the meaning ascribed thereto by the Master Lease Agreement.

Gentlemen:

Please refer to the above-described Master Lease Agreement and User Agreement. In accordance with the terms of the Master Lease Agreement and the User Agreement, the Participating User hereby certifies and represents to, and agrees with, Lessor as follows:

A. The Equipment described on the preceding **Attachment A** has been delivered and installed at the Equipment Location and such delivery and installation have been completed on or before the date hereof.

B. The Participating User has conducted such inspection and/or testing of the Equipment as it deems necessary and appropriate and hereby acknowledges that it accepts the Equipment for all purposes effective the date hereof.

C. No event of default, as such term is defined in the Master Lease Agreement, and no event which with notice or lapse of time, or both, would become an event of default, has occurred and is continuing at the date hereof.

D. The Equipment described on the preceding **Attachment A** is covered against all risks pursuant to the policy of the insurance evidenced by the certificate of insurance attached hereto or is insured pursuant to a program of self insurance as required by the Master Lease Agreement and the User Agreement.

Yours truly,

**COPIAH-LINCOLN COMMUNITY COLLEGE  
DISTRICT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Exhibit “C”**

**The Series 2020A Participating User Lease Payment Schedule**

Equipment Amount	\$400,000
Maximum Length of Lease	Four (4) years
Annual Percentage Rate	2.96% (approximate APR)
Dated Date	March 5, 2020

<b>Payment Date</b>	<b>Principal Amount</b>	<b>Interest Amount</b>	<b>Total Payment</b>
4/10/2020	\$51,608.74	\$1,151.11	\$52,759.85
10/10/2020	47,603.67	5,156.18	52,759.85
4/10/2021	48,308.19	4,451.66	52,759.85
10/10/2021	49,023.16	3,736.69	52,759.85
4/10/2022	49,748.70	3,011.15	52,759.85
10/10/2022	50,484.99	2,274.86	52,759.85
4/10/2023	51,232.16	1,527.69	52,759.85
10/10/2023	51,990.39	769.46	52,759.85
<b>TOTALS</b>	<b><u>\$400,000.00</u></b>	<b><u>\$22,078.80</u></b>	<b><u>\$422,078.80</u></b>

## PROCEEDS CERTIFICATE

I, the undersigned, do hereby certify that I am the duly elected or appointed and an authorized official of the Copiah-Lincoln Community College, a duly organized and existing agency of the State of Mississippi (the "College"), and that in my official capacity, I am familiar with the execution and delivery of that certain Series 2020A Participating User Agreement, dated as of March 5, 2020 (the "User Agreement"), by and between the State of Mississippi (the "State"), represented by and acting through the State of Mississippi Department of Finance and Administration ("DFA"), and the College. This Certificate is being issued pursuant to section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder (the "Regulations"). The following facts, estimates and circumstances are in existence on the date of this Certificate or are reasonably expected to occur hereafter.

1. **Authorization.** The User Agreement is being executed and delivered pursuant to the authority of the Constitution and laws of the State, particularly Section 31-7-10 of the Mississippi Code of 1972, as amended (the "Master Lease Statute"). Terms used herein and not otherwise defined shall have the same meaning as given to such terms in the User Agreement.

2. **Purpose of the User Agreement.** Pursuant to the Master Lease Statute, DFA has established a Master Lease Purchase Program (the "Program") for various agencies, departments, school districts and community college districts of the State. DFA will lease and purchase various items of equipment from First Southwest Leasing Company ("FirstSouthwest Leasing"), pursuant to the Master Lease Purchase Agreement, dated as of March 5, 2020 and entered into between DFA, as the lessee, and FirstSouthwest Leasing, as the lessor, for sublease and sale to entities of the State. Pursuant to the User Agreement, DFA will sublease and sell to the College certain items of equipment and other personal property (as described in the User Agreement, the "Equipment"), and the College will sublease and purchase from DFA the Equipment by making lease payments comprised of both principal and interest (the "Lease Payments"), on the dates and in the amounts set forth in Exhibit C to the User Agreement, subject to its terms and conditions. In order to obtain funds necessary to acquire the equipment for lease and sale to DFA, FirstSouthwest Leasing has arranged, through U.S. Bank National Association, as the trustee (the "Trustee"), to sell those certain "Lease Revenue Certificates of Participation (Master Lease Program, Series 2020A)" (the "Certificates"). A portion of the proceeds of the Certificates in the amount of \$400,000 (the "Proceeds") will be used by DFA to purchase or refinance the Equipment for the College.

3. **Use of Funds.**

(a) **Proceeds.** The Proceeds will be deposited in the Series 2020A Acquisition Fund established pursuant to that certain Trust Agreement by and among DFA, the Trustee, and FirstSouthwest Leasing (the "Trust Agreement"), dated as of March 5, 2020, and used to acquire the Equipment.

(b) **Temporary Period.** The College reasonably expects that the following will be true with respect to the Proceeds in the Acquisition Fund:

(i) The Proceeds deposited into the Acquisition Fund and all investment earnings thereon will be allocated to expenditures for the Equipment within three (3) years from the date hereof. To the extent the Proceeds or any portion thereof are being used to refinance existing debt of the College incurred to finance the Equipment, such Proceeds will be used to refinance such indebtedness within ninety (90) days of the date of execution and delivery of the Certificates.

(ii) No later than six months following the closing date, binding obligations will be entered into with third parties obligating the expenditure of at least five percent of the Proceeds to acquire the Equipment.

(iii) The acquisition of the Equipment will proceed with due diligence.

(c) **Funds; No Replacement.** Except for the Certificate Payment Fund (as defined in the Trust Agreement) and the Acquisition Fund which have been established by the Trustee, the College has not created or established or caused to be created or established and is not aware of the creation or establishment on its behalf of, and will not create or establish, any sinking fund or other similar fund with respect to the Certificates. No portion of the amounts received from the execution of the User Agreement and the sale of the Certificates will be used by the College as a substitute for other funds which were otherwise to be used as a source of financing for the acquisition of the Equipment, and which have been or will be used to acquire, directly or indirectly, obligations producing a yield in excess of the yield on the Certificates.

4. **Tax Covenants and Representations of the College.** The College understands that it is the intention of DFA that the interest component of the Lease Payments not be included within the gross income of the holders thereof for federal income tax purposes and that in executing its Arbitrage Certificate in connection with the Certificates, DFA will be relying on the representations made by the College in this Certificate. In furtherance thereof, the College agrees that it will take all action within its control which is necessary in order for the interest component of the Lease Payments to remain exempt from federal income taxation and shall refrain from taking any action which results in such interest component becoming so taxable. The College covenants to comply with each requirement of the Code and the Regulations necessary to maintain the exclusion of the interest component of the Lease Payments from gross income for federal income tax purposes, and in furtherance thereof, represents and covenants as follows:

(a) The College shall take no action, and shall not omit to take any action, the effect of which could be to cause the Certificates to be deemed an "arbitrage bond" within the meaning of Section 148 of the Code or otherwise cause the interest components of the Lease Payments to be includable in gross income for federal income tax purposes under existing law or to be subject to income taxation under the laws of the State.

(b) During the term of the User Agreement, the Equipment will be used by the College only for the purpose of performing one or more governmental or proprietary functions of the College consistent with the permissible scope of the College's authority and will not be used in a trade or business of any person or entity other than the College.

(c) The College will not lease or otherwise make any of the Equipment available for use by any other person or entity if such lease or other availability would affect the status of the interest component of the Lease Payments as tax-exempt under Section 103 of the Code for federal income tax purposes. The College acknowledges that in determining whether the Equipment is used, directly or indirectly, in the trade or business of any other person for purposes of the preceding sentence, use of the Equipment pursuant to a lease, management contract or other arrangement must be examined. Without limiting the generality of the covenant set forth in the initial sentence of this clause (c), the College agrees that it will not enter into any lease, management contract or other arrangement between the College and any other person with respect to the Equipment unless such arrangement satisfies the guidelines set forth in Rev. Proc. 97-13, as such guidelines are amended in accordance with the provisions of the Tax Reform Act of 1986.

(d) The College agrees to comply with the provisions of Section 148(f) of the Code. In such regard, the College acknowledges that certain investment earnings on funds, including a proportionate amount of the funds held in the Acquisition Fund held on its behalf, may be subject to “rebate” to the United States Treasury pursuant to Section 148(f) of the Code and the Regulations. The College agrees to pay to DFA all amounts subject to such rebate. The obligation of the College to make such payments is unconditional and is not limited to funds received by the College pursuant to the User Agreement or income from the investment thereof or any other particular source.

(e) The College reasonably expects that the average maturity of the Certificates will not exceed one hundred and twenty percent (120%) of the average reasonably expected economic life of the Equipment based on when the Equipment is in fact acquired.

(f) The College covenants to prepare and file, or to cause to be prepared and filed, all reports required under Section 103 of the Code (including the applicable Form 8038-G/GC) to assure that the interest component of the Lease Payments shall be exempt from all federal income taxation.

**5. Reimbursement Representations.** Under certain circumstances described below, the College may be entitled to the Proceeds to reimburse the College for an expenditure paid prior to March 5, 2020, the date of funding.

If the College wishes to use the Proceeds to obtain reimbursement for an expenditure paid prior to the date of funding (the “Reimbursed Expenditures”), the College will allocate a portion of the Proceeds and investment earnings thereon (the “Reimbursement Allocation”) to the Reimbursed Expenditures and will, after such Reimbursement Allocation, treat such Proceeds as being spent. In support of the Reimbursement Allocation, the College represents as follows:

(a) The College has adopted an official intent (within the meaning of Section 1.150-2(e) of the Regulations) to reimburse such expenditures not later than sixty (60) days after the date such expenditures were paid. At the time the official intent described was declared, the College reasonably expected to reimburse such Reimbursed Expenditures related thereto with the Proceeds.


(b) The College will allocate the Proceeds to reimburse the Reimbursed Expenditures in an amount equal to said Reimbursed Expenditures. The Reimbursement Allocation is within 18 months after the later of (i) the first date on which a Reimbursed Expenditure was paid or (ii) the first day on which the Equipment relating to the Reimbursed Expenditure was placed in service as provided in Section 1.150-2(c) of the Code or abandoned, but in no event more than three years after the date on which the related Reimbursed Expenditure was paid.

(c) All Reimbursed Expenditures will represent capital expenditures within the meaning of Section 1.150-1(b) of the Code.

To the best of my knowledge and belief, the expectations stated in this Certificate are reasonable and there are no facts, estimates or circumstances other than those expressed herein that would materially affect the expectations expressed herein.

Executed as of March 5, 2020.

**COPIAH-LINCOLN COMMUNITY COLLEGE**

  
\_\_\_\_\_  
Dr. Jane Hulan  
President

**CLOSING CERTIFICATE OF  
COPIAH-LINCOLN COMMUNITY COLLEGE**

I, the undersigned, do hereby certify that I am a duly elected or appointed or authorized official of **COPIAH-LINCOLN COMMUNITY COLLEGE**, a duly organized and validly existing entity of the State of Mississippi (the “College”), that I hold the office set forth below my signature, and that I am hereby executing and delivering this certificate for the benefit of all persons interested in that certain Series 2020A Participating User Agreement (the “User Agreement”), dated as of March 5, 2020, by and between the College and the State of Mississippi, represented by and acting through the Department of Finance and Administration. The User Agreement and all other documents, certificates or instruments executed or delivered by the College in connection therewith are referred to herein collectively as the “Financing Documents”. Terms defined in the User Agreement are used in this certificate with the same meanings as in the User Agreement. I do hereby further certify that:


1. I am familiar with and have personal knowledge of the matters hereinafter stated.
2. The College is a duly organized and validly existing entity of the State of Mississippi.
3. Each person signing the Financing Documents to which the College is a party, is a duly elected or appointed, qualified and acting officer of the College holding the office set forth below such person’s signature, and each such person’s signature appearing thereon is true and genuine.
4. To the best of my knowledge, (i) the representations and warranties of the College in the Financing Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (ii) the College has complied with all terms on its part to be performed or satisfied by it under the Financing Documents, at or prior to the date hereof, and (iii) the Financing Documents remain in full force and effect and no default or breach, or other event that, with the giving of notice or the passage of time or both, would become a default or breach, has occurred thereunder.
5. Each of the Financing Documents has been duly executed and delivered by or on behalf of the College and constitutes a legal, valid and binding obligation of the College enforceable in accordance with its terms.
6. Except as have been obtained and are in full force and effect as of the date hereof, no governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery by the College of the Financing Documents or the acquisition of the Series 2020A Equipment (the “Equipment”).
7. The College has taken all actions necessary to appropriate or otherwise provide for all amounts required to be paid under the Financing Documents during the College’s current fiscal period ending June 30, 2020, and the College has or expects to have sufficient unexhausted funds to make such payments as the same become due.

8. To the best of my knowledge no litigation is pending or threatened in any court to restrain or enjoin the execution or delivery of the Financing Documents or the payment of the Lease Payments, or in any way contesting or affecting the validity of the Financing Documents, or contesting the powers of the College or contesting the authorization of the Financing Documents or which, if adversely determined, will have a material, adverse effect on the ability of the College to perform its obligations under the Financing Documents.
9. The Equipment will be used by the College only for the purpose of performing one or more of its governmental functions consistent with the permissible scope of its authority. No portion of the Equipment will be leased to or operated by any person in connection with a non-governmental trade or business.
10. The Equipment is essential to the proper, efficient and economic functioning of the College and to the services that the College provides. The College has an immediate need for and expects to make immediate use of substantially all the Equipment, which use is not temporary or expected to diminish in the foreseeable future.

**EXECUTED** as of March 5, 2020.

**COPIAH-LINCOLN COMMUNITY COLLEGE**

By: \_\_\_\_\_

  
Dr. Jane Hulon  
President

March 5, 2020

First Southwest Leasing Company  
1201 Elm Street, Suite 3500  
Dallas, Texas 75270

Re: Series 2020A Agency User Agreement, dated as of March 5, 2020, by and between the **State of Mississippi**, represented by and acting through its Department of Finance and Administration, and **Copiah-Lincoln Community College**

Ladies and Gentlemen:

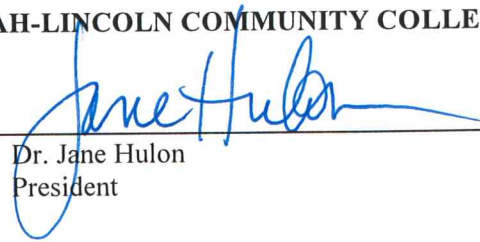
Outlined below is the invoicing procedure we have elected in connection with above-referenced Lease:

- A. Number of invoice copies required: **2**
- B. Submit invoices to:  
**Copiah-Lincoln Community College**  
**P.O. Box 460**  
**Wesson, Mississippi 39191**  
**Attention: Richard Baker, Vice President of Business Affairs**  
**Phone 601-643-8302; richard.baker@colin.edu**
- C. Information required on invoice for identification purposes:  
**State Treasurer Fund 3212**  
**(Agency Number 130, Vendor Number V9913031320)**  
**Department of Finance and Administration**  
**Attention: Office of Budget and Accounting; Reginald Welch**  
**1301 Woolfolk Building, Suite B**  
**501 North West Street**  
**Jackson, Mississippi 39201**  
**Mississippi Master Lease Purchase Program, Series 2020A**  
**Please process this invoice as a GT document. When accepted, forward one copy of GT document and invoice to the DFA address shown above. THANK YOU!!**
- D. Trustee Information:  
**U.S. Bank National Association**  
**6810 Crumpler Blvd., Suite 200**  
**Olive Branch, Mississippi 38654**  
**Attention: Wally Duke, Vice President**  
**Phone: 662-383-5847; wallace.duke@usbank.com**
- E. For internal processing, receipt of invoice at least **forty-five (45)** days prior to payment date is required.

Sincerely,

**COPIAH-LINCOLN COMMUNITY COLLEGE**

By: \_\_\_\_\_

  
Dr. Jane Hulon  
President

cc: DFA, Director of Budget and Accounting



1201 Elm Street, Suite 3500  
Dallas, Texas 75270

214.953.8874 Direct  
214.953.4072 Fax

Vickie L. Hall  
Vice President

Vickie.Hall@hilltopsecurities.com

March 13, 2020

*CERTIFIED MAIL, RETURN RECEIPT REQUESTED*  
*7000 1670 0001 1062 0845*

Internal Revenue Service Center  
Ogden, Utah 84201

Re: \$400,000 Participating User Agreement made and entered into by and between the State of Mississippi, represented by and acting through the State of Mississippi Department of Finance and Administration, and Copiah-Lincoln Community College, dated as of March 5, 2020

Ladies and Gentlemen:

Enclosed for filing are duplicate originals of Form 8038-G prepared in connection with the captioned financing.

Thank you very much for your assistance.

Sincerely yours,

Vickie L. Hall  
Vice President

U.S. Postal Service CERTIFIED MAIL RECEIPT (Domestic Mail Only; No Insurance Coverage Provided)	
OFFICIAL USE	
Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$
Postmark Here	
2020A 3.13.2020	
Sent To IRS	
Street, Apt. No., or PO Box No. Service Center	
City, State, ZIP+4 Ogden, UT 84201	
PS Form 3800, May 2000	
See Reverse for Instructions	

Form **8038-G**

(Rev. September 2018)

Department of the Treasury  
Internal Revenue Service**Information Return for Tax-Exempt Governmental Bonds**

► Under Internal Revenue Code section 149(e)

► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

► Go to [www.irs.gov/F8038G](http://www.irs.gov/F8038G) for instructions and the latest information.

OMB No. 1545-0720

If Amended Return, check here ☐**Part I Reporting Authority**

1 Issuer's name <b>Copiah-Lincoln Community College</b>		2 Issuer's employer identification number (EIN) <b>64-6000239</b>
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions) <b>Vickie Hall</b>		3b Telephone number of other person shown on 3a <b>214.953.8874</b>
4 Number and street (or P.O. box if mail is not delivered to street address) <b>P.O. Box 460</b>	Room/suite	5 Report number (For IRS Use Only) <b>3</b>
6 City, town, or post office, state, and ZIP code <b>Wesson MS 39191</b>		7 Date of issue <b>March 5, 2020</b>
8 Name of issue <b>Series 2020A Participating User Agreement</b>		9 CUSIP number <b>None</b>
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) <b>Robert Baker, Vice President of Business Affairs</b>		10b Telephone number of officer or other employee shown on 10a <b>601.643.8302</b>

**Part II Type of Issue (enter the issue price).** See the instructions and attach schedule.

11 Education . . . . .	11		
12 Health and hospital . . . . .	12		
13 Transportation . . . . .	13		
14 Public safety . . . . .	14		
15 Environment (including sewage bonds) . . . . .	15		
16 Housing . . . . .	16		
17 Utilities . . . . .	17		
18 Other. Describe ► <u>lease purchase of equipment</u>	18	400,000	00
19a If bonds are TANs or RANs, check only box 19a . . . . .			
b If bonds are BANs, check only box 19b . . . . .			
20 If bonds are in the form of a lease or installment sale, check box . . . . .			

**Part III Description of Bonds.** Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	10/10/2023	\$ 4000,000	\$ N/A	4 years	2.96 %

**Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)** N/A

22 Proceeds used for accrued interest . . . . .	22		
23 Issue price of entire issue (enter amount from line 21, column (b)) . . . . .	23		
24 Proceeds used for bond issuance costs (including underwriters' discount) . . . . .	24		
25 Proceeds used for credit enhancement . . . . .	25		
26 Proceeds allocated to reasonably required reserve or replacement fund . . . . .	26		
27 Proceeds used to refund prior tax-exempt bonds. Complete Part V . . . . .	27		
28 Proceeds used to refund prior taxable bonds. Complete Part V . . . . .	28		
29 Total (add lines 24 through 28) . . . . .	29		
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here) . . . . .	30		

**Part V Description of Refunded Bonds.** Complete this part only for refunding bonds. N/A

31 Enter the remaining weighted average maturity of the tax-exempt bonds to be refunded . . . . .	►	_____ years
32 Enter the remaining weighted average maturity of the taxable bonds to be refunded . . . . .	►	_____ years
33 Enter the last date on which the refunded tax-exempt bonds will be called (MM/DD/YYYY) . . . . .	►	_____
34 Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)		

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 63773S

Form **8038-G** (Rev. 9-2018)

**Part VI Miscellaneous**

- |            |  |   |    |
|------------|--|---|----|
| <b>35</b>  |  | 0 | 00 |
| <b>36a</b> |  | 0 | 00 |
| <b>37</b>  |  | 0 | 00 |
- 35** Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) . . . . .
- 36a** Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC). See instructions . . . . .
- b** Enter the final maturity date of the GIC ► (MM/DD/YYYY) \_\_\_\_\_
- c** Enter the name of the GIC provider ► \_\_\_\_\_
- 37** Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units . . . . .
- 38a** If this issue is a loan made from the proceeds of another tax-exempt issue, check box ► ☐ and enter the following information:
- b** Enter the date of the master pool bond ► (MM/DD/YYYY) \_\_\_\_\_
- c** Enter the EIN of the issuer of the master pool bond ► \_\_\_\_\_
- d** Enter the name of the issuer of the master pool bond ► \_\_\_\_\_
- 39** If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box . . . . . ► ☐
- 40** If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box . . . . . ► ☐
- 41a** If the issuer has identified a hedge, check here ► ☐ and enter the following information:
- b** Name of hedge provider ► \_\_\_\_\_
- c** Type of hedge ► \_\_\_\_\_
- d** Term of hedge ► \_\_\_\_\_
- 42** If the issuer has superintegrated the hedge, check box . . . . . ► ☐
- 43** If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box . . . . . ► ☐
- 44** If the issuer has established written procedures to monitor the requirements of section 148, check box . . . . . ► ☐
- 45a** If some portion of the proceeds was used to reimburse expenditures, check here ► ☐ and enter the amount of reimbursement . . . . . ► \_\_\_\_\_
- b** Enter the date the official intent was adopted ► (MM/DD/YYYY) \_\_\_\_\_

**Signature and Consent**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.

*Jane Hulon*  
Signature of issuer's authorized representative

Date

3/5/2020

Dr. Jane Hulon, President

Type or print name and title

**Paid Preparer Use Only**

Print/Type preparer's name  
Vickie Hall

Preparer's signature

*Vickie Hall*

Date

3/5/2020

Check ☐ if self-employed

PTIN

P01704188

Firm's name ► Hilltop Securities Inc.

Firm's EIN ► 75-1382137

Firm's address ► 1201 Elm Street, Suite 3500, Dallas TX 75270

Phone no. 214.953.8874

2080106296

File Number: 20203190566A

Date Filed: 3/13/2020 3:33:49 PM

Michael Watson

Secretary of State

## UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional) <b>Vickie Hall</b> (214) 953-8874	
B. EMAIL CONTACT AT FILER (optional) <b>vickie.hall@hilltopsecurities.com</b>	
C. SEND ACKNOWLEDGMENT TO: (Name and Address)  <b>Hilltop Securities Inc.</b> <b>1201 ELM ST STE 3500</b> <b>DALLAS, TX 75270-2108</b>	

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S NAME: Provide only one Debtor Name (1a or 1b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION NAME Copiah-Lincoln Community College				
OR	1b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
1c. MAILING ADDRESS 1001 COPIAH LINCOLN DR		CITY WESSON	STATE MS	POSTAL CODE 39191
				COUNTRY USA

2. DEBTOR'S NAME: Provide only one Debtor Name (2a or 2b)(use exact, full name; do not omit, modify or abbreviate any part of the Debtor's Name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION NAME				
OR	2b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
2c. MAILING ADDRESS		CITY	STATE	POSTAL CODE
				COUNTRY

3. SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY): Provide only one Secured Party name (3a or 3b)

3a. ORGANIZATION NAME State of Mississippi acting through its Department of Finance and Administration				
OR	3b. INDIVIDUAL'S SURNAME	FIRST PERSONAL NAME	ADDITIONAL NAME(S)/INITIAL(S)	SUFFIX
3c. MAILING ADDRESS PO BOX 267		CITY JACKSON	STATE MS	POSTAL CODE 39205
				COUNTRY USA

4. COLLATERAL: This financing statement covers the following collateral:

Each item of equipment acquired or to be acquired or refinanced for use by Copiah-Lincoln Community College under the Series 2020A Master Lease Program dated as of March 5, 2020, including, but not limited to, laboratory computers, lecterns, and security cameras (4-year lease term with an aggregate equipment cost of \$400,000); together with any and all additions, attachments, and accessions to any of the equipment listed hereon, any and all proceeds of any sale, assignment, lease, sublease, or rental of any of the equipment listed hereon, and any and all proceeds of any insurance settlement or recovery with respect to any of the equipment listed hereon.

5. Check only if applicable and check only one box: Collateral is ☐ held in a Trust (see UCC1Ad item 17 and instructions) ☐ being administered by a Decedent's Personal Representative

6a. Check only if applicable and check only one box:

☐ Public-Finance Transaction ☐ Manufactured Home Transaction ☐ A Debtor is a Transmitting Utility

6b. Check only if applicable and check only one box:

☐ Agricultural Lien ☐ Non-UCC Filing

7. ALTERNATIVE DESIGNATION (if applicable) ☐ Lessee/Lessor ☐ Consignee/Consignor ☐ Seller/Buyer ☐ Bailee/Bailor ☐ Licensee/Licensor

8. OPTIONAL FILER REFERENCE DATA

**2020 - Copiah-Lincoln Community College**

**EXHIBIT C**

**THE DEPARTMENT OF FINANCE AND ADMINISTRATION'S REQUEST FOR  
PROPOSALS FOR FINANCIAL ADVISORY SERVICES FOR THE MASTER LEASE  
PURCHASE PROGRAMS DATED JULY 16, 2021**



# **OFFICE OF PROCUREMENT AND CONTRACTS**

## **REQUEST FOR PROPOSALS RFx #: 3120002290**

### **FINANCIAL ADVISOR FOR MASTER LEASE PURCHASE PROGRAMS**

**August 24, 2021**

Contact information for this request for proposal:

Master Lease Services RFP  
c/o DFA - Office of Procurement and Contracts  
501 North West Street  
Suite 1301-A Woolfolk Building  
Jackson, Mississippi 39201  
[procurement@dfa.ms.gov](mailto:procurement@dfa.ms.gov)

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## SECTION 1. INTRODUCTION AND OVERVIEW

### 1.1 Purpose and Goals

The Mississippi Department of Finance and Administration (DFA) Office of Procurement and Contracts, on behalf of the Office of Purchasing Travel and Fleet Management (OPTFM), issues this Request for Proposals (RFP) to solicit proposals from qualified, experienced, responsible and financially sound firms to provide Financial Advisor Services (Advisor) for the Master Lease Purchase Programs (MLPP) for (1) K-12 School Districts and Community and Junior College Districts (Districts) and (2) State Agencies. In accordance with Section 31-7-10 of the Mississippi Code, the purpose of this Request for Proposals is to establish a contract for an Advisor who will administer the procedures for the MLPP to obtain financing for various items of equipment required by the Districts and State Agencies of the State of Mississippi, and will provide administrative support and all Advisor functions related to these programs. The selected offeror will assist DFA by providing such services as requested for which the offeror has the technical capability to render. The Advisor will, as needed, consolidate the equipment lease/purchase requirements of one or more Districts and State Agencies into an issue for funding purposes. After consultation and approval by DFA, Advisor will solicit bids or otherwise obtain rates for financing, using the documents and process. This may also require review and approval by the Bond Commission, if applicable. Following receipt of bids or otherwise obtaining rates, Advisor, using criteria approved by DFA, will determine the best bidder and/or the acceptability of the rates obtained. Advisor will then prepare award documents and obtain financing using the recommended documents.

Offerors must have the proven ability to perform all core services requested in this RFP. A more detailed listing of services is contained in ***Section 4 – Scope of Services***. DFA seeks to enter into a firm fixed price contract with a financial advisor for these services.

The awarded contract will be for three (3) years with two (2) optional renewal terms, which may be exercised at the discretion of DFA. The entire contract term, including renewals, shall not exceed five (5) years. The effective date of this contract will be **October 1, 2021**. A draft copy of the contract has been included as Appendix D for your review.

A copy of this RFP, including all appendices and attachments, and any subsequent amendments, including the Question and Answer amendment, if issued, will be posted to the DFA website at <https://www.dfa.ms.gov/bid-rfp-notices/>. It is the responsibility of all interested vendors to monitor the website for updates regarding this procurement.

Before the award of any contract, the offeror will be required to document to DFA that it has the necessary capabilities to provide the core services specified in this RFP. The offeror may also be required to provide additional client references, as well as related project experience detail in order to satisfy DFA that the offeror is qualified. DFA may make reasonable investigations, as it deems necessary and proper, to determine the ability of the offeror to perform the work, and the vendor shall be required to furnish to DFA all information that may be requested for this purpose. DFA reserves the right to reject any proposal if the offeror fails to provide the requested information and/or fails to satisfy DFA that the offeror is properly qualified to carry out the obligations of the contract and to complete the work described in this RFP.

## 1.2 Proposal Submission Requirements

If submitting via MAGIC, the following documents are required in electronic format. If submitting in paper format, the original written proposals shall be signed and submitted in a three-ring binder, along with five (5) identical copies, with section components of the RFP clearly tabbed as follows:

- Tab 1 – Statement of Proposals Form (signed)
- Tab 2 – **Section 2** Procurement Methodology
- Tab 3 – **Section 3** – Minimum Qualifications Confirmation
- Tab 4 – **Section 4** – Scope of Services Confirmation
- Tab 5 – **Section 5** – Questionnaire with Responses
- Tab 6 – **Section 6** – References
- Tab 7 – **Section 7** – Service Plan
- Tab 8 – **Section 8** – Fee Schedule
- Tab 9 – **Section 9** – Signed Acknowledgment of RFP Amendments (if any)
- Tab 10 – **Section 10** – Résumés for Key Staff
- Tab 11 – **Section 11** – Any Additional Information

Each page of the proposal must be numbered. Multiple page attachments and samples should be numbered internally within each document, and not necessarily numbered in the overall page number sequence of the entire proposal. The intent of this requirement is that the Offeror submit all information in a manner so that it is clearly referenced and easily located. Proposals submitted are limited to a total of ten (10) pages per tab, not including attachments which should be included in the appropriate appendix.

The Offeror shall provide the following:

- a. one (1) electronic copy of the complete proposal including all attachments in a searchable Microsoft Office® format, preferably in Word® or Portable Document Format (PDF®).
- b. If the proposal contains confidential information, one (1) redacted electronic copy of the complete proposal including all attachments shall be submitted in a searchable Microsoft Office® format, preferably in Word® or Portable Document Format (PDF®).

**If a redacted copy is not submitted, DFA shall consider the entire proposal to be public record.** The redacted copy should identify which section or information has been redacted and the Offeror shall provide the specific statutory authority for the exemption. Per Mississippi Code Annotated §25-61-9(7), the type of service to be provided, the price to be paid and the term of the contract cannot be deemed confidential.

The redacted copy shall be considered public record and immediately released, without notification to Offeror, pursuant to any request under the Mississippi Public Records Act, Miss. Code Ann.

§§25-61-1 *et seq.* and Miss. Code Ann. §79-23-1. Redacted copies shall also be used/released for any reason deemed necessary by DFA, including but not limited to, posting to the Transparency Mississippi website, etc.

Modifications or additions to any portion of the procurement document may be cause for rejection of the proposal. DFA reserves the right to decide, on a case-by-case basis, whether to reject a proposal with modifications or additions as non-responsive. As a precondition to proposal acceptance, DFA may request the Offeror to withdraw or modify those portions of the proposal deemed non-responsive that do not affect quality, quantity, price, or delivery of the service. The RFP issued by DFA is the official version and will supersede any conflicting RFP language subsequently submitted in proposals.

All documentation submitted in response to this RFP and any subsequent requests for information pertaining to this RFP shall become the property of DFA and will not be returned to the Offeror.

All information requested is considered important. If you have additional information you would like to provide, include it as Section 11 of your proposal. Failure to provide all requested information and in the required format may result in disqualification of the proposal. DFA has no obligation to locate or acknowledge any information in the proposal that is not presented under the appropriate outline and in the proper location according to the instructions herein.

***Financial Advisor for Master Lease Purchase Program RFP***  
**c/o DFA - Office of Procurement and Contracts**  
**501 North West Street**  
**Suite 1301-A Woolfolk Building**  
**Jackson, Mississippi 39201**

To prevent opening by unauthorized individuals, the proposal, including any and all attachments, must be sealed in one package. The outside cover of the package containing the sealed proposals **shall be labeled:**

**Proposal - DO NOT OPEN**  
**RFx #: 3120002290**

### **1.2.1 Proposal Submission Period**

**Proposals shall be submitted no later than 2:00 PM Central Standard Time (CST), Friday, September 3, 2021.** Timely submission of the proposal package is the responsibility of the Offeror. Any proposal received after the deadline will be considered late and will be rejected and will not be considered for award. The Offeror shall be notified as soon as practicable if their proposal was rejected and the reason for such rejection.

### **1.3 Important Dates**

*NOTE: Adjustments to the schedule may be made as deemed necessary by the Office of Procurement and Contracts.*

August 24, 2021	Request for Proposals released
September 3, 2021	Proposal submission deadline by 2:00 PM CST
September 7, 2021	Proposal Evaluation
September 20, 2021	Notice of Intent to Award distributed
October 1, 2021	Contract effective date

### **1.4 Acknowledgment of Amendments**

DFA reserves the right to amend this RFP at any time. Should an amendment to the RFP be issued, it will be posted to the Office of Procurement and Contracts page on the DFA website at <http://www.dfa.ms.gov/dfa-offices/procurement-contracts/> under the “Bid/RFP Notice”. Offerors must acknowledge receipt of any amendment to the RFP by signing and returning the amendment. The acknowledgment must be included in the proposal submission. Please monitor the website for amendments to the RFP. DFA responses to questions will be treated as amendments to the RFP and will require acknowledgment.

### **1.5 Cost Statement of Proposal Preparation**

All costs incurred by the Offeror in preparing and delivering its proposal, making presentations, and any subsequent time and travel to meet with DFA regarding its proposal shall be borne exclusively at the Offeror’s expense.

### **1.6 Right to Reject, Cancel and/or Issue Another RFP**

DFA specifically reserves the right to reject any or all proposals received in response to the RFP, cancel the RFP in its entirety, or issue another RFP.

### **1.7 Registration with Mississippi Secretary of State**

By submitting a proposal, the Offeror certifies that it is registered to do business in the state of Mississippi as prescribed by Mississippi law and the Mississippi Secretary of State or, if not already registered, that it will do so within seven (7) business days of being notified by DFA Office of Procurement and Contracts that it has been awarded a contract.

### **1.8 Debarment**

By submitting a proposal, the Offeror certifies that it is not currently debarred from submitting proposals for contracts issued by any political subdivision or agency of the state of Mississippi or Federal government and that it is not an agent of a person or entity that is currently debarred from submitting proposals for contracts issued by any political subdivision or agency of the state of Mississippi.

### **1.9 Right to Consider Historical Information**

DFA reserves the right to consider historical information regarding the Offeror, whether gained from the Offeror's proposal, conferences with the Offeror, references, or any other source during the evaluation process. This may include, but is not limited to, information from any state or federal regulatory entity.

## **SECTION 2. PROCUREMENT METHODOLOGY**

### **2.1 Restrictions on Communications with DFA Staff**

At no time shall any Offeror or its personnel contact, or attempt to contact, any DFA staff regarding this RFP except the Office of Procurement and Contracts. All correspondence should be sent to [procurement@dfa.ms.gov](mailto:procurement@dfa.ms.gov). **Should it be determined that any Offeror has attempted to communicate or has communicated with any DFA employee outside of the Office of Procurement and Contracts regarding this RFP, DFA, at its discretion, may disqualify the Offeror from submitting a proposal in response to this RFP.**

### **2.2 Acceptance of Proposals**

After receipt of the proposals, DFA reserves the right to award the contract based on the terms, conditions, and premises of the RFP and the proposal of the selected firm without negotiation.

All proposals properly submitted shall be accepted by DFA. After review DFA may request necessary amendments from all Offerors, reject any or all proposals received, or cancel this RFP, according to the best interest of DFA and the State of Mississippi.

DFA also reserves the right to waive minor irregularities in proposals providing such action is in the best interest of DFA and the State of Mississippi. A minor irregularity is defined as a variation of the RFP which does not affect the price of the proposal, or give one party an advantage or benefit not enjoyed by other parties, or adversely impact the interest of DFA. Where DFA may waive minor irregularities as determined by DFA, such waiver shall in no way modify the RFP requirements or excuse the Offeror from full compliance with the RFP specifications and other contract requirements should the Offeror be awarded the contract.

DFA reserves the right to exclude any and all non-responsive proposals from any consideration for contract award. DFA shall award an indefinite quantity contract to the Offeror whose proposal is responsive to the solicitation and is most advantageous to DFA and the State of Mississippi in price, quality, and other factors considered.

### **2.3 Disposition of Statement of Qualifications**

The proposal submitted by the successful Offeror shall be incorporated into and become part of the resulting contract. All proposals received by DFA shall upon receipt become and remain the property of DFA. DFA shall have the right to use all concepts contained in any proposal and this right shall not affect the solicitation or rejection of the proposal.

### **2.4 Modification or Withdrawal of a Statement of Qualifications**

Prior to the proposal due date, a submitted proposal may be withdrawn by submitting a written request for its withdrawal to DFA, signed by the Offeror.

A proposal may submit an amended proposal before the due date for receipt of proposals. Such amended proposals shall be a complete replacement for a previously submitted proposal and shall be clearly identified as such. DFA shall not merge, collate, or assemble proposal materials.

Unless requested by DFA, no other amendments, revisions, or alterations to proposals shall be accepted after the proposal due date.

Any submitted proposal shall remain a valid proposal for one hundred eighty (180) calendar days from the proposal due date.

## **2.5 Rejection of Statements of Minimum Qualifications**

A proposal response that includes terms and conditions that do not conform to the terms and conditions specified within this RFP document is subject to rejection as non-responsive. Further, submission of a proposal that is not complete and/or unsigned is subject to rejection as non-responsive. DFA staff reserves the right to permit the Offeror to withdraw nonconforming terms and conditions from its proposal response prior to a determination by DFA staff of non-responsiveness based on the submission of nonconforming terms and conditions. Any proposal which is conditioned upon receiving award of both the particular contract being solicited and another Mississippi contract shall be deemed non-responsive and will be rejected.

## **2.6 Alternate Statement of Proposals**

Each Offeror, its subsidiaries, affiliates, or related entities shall be limited to one (1) proposal which is responsive to the requirements of this RFP. Failure to submit a responsive proposal may result in the rejection of the Offeror's proposal. Submission of more than one (1) proposal by an Offeror may, at the discretion of DFA, result in the summary rejection of all proposals submitted. An Offeror's proposal shall not include variable or multiple pricing options.

## **2.7 Corrections and Clarifications**

The Office of Procurement and Contracts reserves the right to request clarifications or corrections to proposals. Any proposal received which does not meet any of the requirements of this RFP, including clarification or correction requests, may be considered non-responsive and eliminated from further consideration.

## **2.8 Statement of Proposal Evaluation**

All proposals received in response to this RFP by the stated deadline will receive a comprehensive, fair, and impartial evaluation. An evaluation committee will evaluate the proposals using a three-phase process, consisting of Compliance, Analysis, and Finalist phases. For proposals determined to be compliant and responsive to the RFP, consensus scoring will be used in the evaluation process using a 100-point scale. For proposals ultimately determined to be finalists, points may be added based on presentations and site visits, if applicable. Consensus scoring involves solidarity or general agreement of opinion among evaluators, based on information and data contained in the RFP responses. The evaluation of any proposal may be suspended and/or terminated at the DFA's discretion at any point during the evaluation process at which the DFA determines that said proposal and/or Offeror fails to meet any of the mandatory requirements as stated in this RFP, the proposal is determined to contain fatal deficiencies to the extent that the likelihood of selection for contract negotiations is minimal, or DFA receives reliable information that would make contracting with the Offeror impractical or otherwise not in the best interests of DFA and/or the state of Mississippi. The evaluation process, including evaluation factors and weights, is described below:

**Compliance Phase** - In this phase of the evaluation process, all proposals received will be reviewed by the procurement officer and/or designee to determine if the following mandatory requirements of this RFP have been satisfied:

1. Proposal submission deadline met.
2. Required format followed:
  - a. Technical Proposals
  - b. Fee Schedule
  - c. Electronic copy of complete proposal, including attachments in searchable Microsoft Office® format, preferably in Word® or Portable Document Format (PDF®) on flash drive or compact disc;
  - d. An electronic redacted copy of complete proposal, including attachments (as applicable); and,
4. Duration of proposal requirement met.
5. Minimum Qualifications met.
6. Scope of Services (Section 4) Confirmation submitted.
7. Questionnaire (Section 5) answered.
8. References (Section 6) provided.
9. Service Plan (Section 7) answered.
10. Fee Schedule (Section 8) provided.
11. Signed Acknowledgement of RFP Amendment(s) (Section 9), including the amendment with DFA's Responses to Questions, if any posted, submitted.
12. Résumés for Key Staff (Section 10) provided.
13. Required proposal attachments provided, if any, and any additional information (Section 11) provided.

Failure to comply with these requirements may result in the proposal being eliminated from further consideration. Those Offerors passing the Compliance Phase will be evaluated further.

**Weight – The Compliance Phase of the evaluation is considered pass/fail.**

**Analysis Phase** – In this phase of the evaluation process, the evaluation committee will utilize consensus scoring to determine numerical scores for each qualified, but non-identified/blind, proposal received, relative to the technical and management factors of each proposal. Evaluation factors are listed in order of their relative importance and weight:

1. Cost (Weight/Value –25%) – The competitiveness of the proposed fees.
2. Technical (Weight/Value – 30%) – The quality and completeness of the Offeror 's solutions and action plans for providing the core services identified, demonstrating understanding, responsiveness, effectiveness, efficiency, and value to DFA in proposed approach.

3. Management (Weight/Value – 45%) – The personnel, equipment, and facilities to provide timely access to MLPP services for a plan of comparable size; the ability to technically implement and maintain the structure and resources for providing all services listed in this RFP, demonstrating where applicable the ability to perform the service reflected by technical training, education and general experience of staff and a documented record of past performance of providing MLPP services.

Upon completion of the Analysis Phase, the evaluation committee will review and compare the numerical scores from among the remaining qualified Offerors in order to determine finalists. The top scoring Offeror, as well as all other Offerors with scores within ten points of the top scoring Offeror, will be named as finalists and will be further evaluated.

**Finalist Phase** – In this phase of the evaluation process, the evaluation committee will seek to determine from among the finalists whose proposal is the most advantageous to DFA. Points may be awarded as part of the finalist evaluation process based on the finalist presentation. This phase consists of the following components:

1. Record of Past Performance of Similar Work (Experience and Qualifications) – From among the finalists, client references will be contacted to verify demonstration of an acceptable level of past performance for programs of a similar size and complexity as DFA. **Weight/Value – This component of the evaluation is considered pass/fail.**
2. Best and Final Offer – At DFA’s discretion, all finalists may be given the opportunity to provide a “best and final offer” relative to their financial proposal. DFA will notify finalists if a “best and final offer” may be submitted, and will establish a date and time for submission. Although a finalist is under no obligation to submit such an offer, any such “best and final” offer should include any applicable revised financial exhibits and must be signed by an appropriate representative of your firm. If a finalist chooses to not make a “best and final offer”, the financial proposal included in your firm’s response to the Request for proposal will be considered as the “best and final offer”. NOTE: Unsolicited “best and final offers”, including but not limited to such offers submitted by non-finalists, will not be accepted. **Weight/Value – The numerical scores for the Cost factor from the Analysis Phase will be adjusted for any “best and final offer” received from a finalist.**

## **2.9 Right of Negotiation**

Discussions and negotiations regarding price and other matters may be conducted with a proposer who submits a proposal determined to have reasonable likelihood of being selected for award, but a proposal may be accepted without such discussions. DFA reserves the right to further clarify and/or negotiate with the proposer evaluated best following completion of the evaluation of proposals but prior to contract execution, if deemed necessary by DFA. DFA also reserves the right to move to the next best proposer if negotiations do not lead to an executed contract with the best proposer. DFA reserves the right to further clarify and/or negotiate with the proposer on any matter submitted.

## **2.10 Post Award Debriefing**

A vendor, successful or unsuccessful, may request a post-award vendor debriefing, in writing, by U.S. mail or electronic submission, to be received by DFA within three (3) business days of notification of the contract award. A vendor debriefing is a meeting and not a hearing; therefore, legal representation is not required. If a vendor prefers to have legal representation present, the vendor shall notify DFA and identify its attorney. DFA shall be allowed to schedule and/or suspend and reschedule the meeting at a time when a representative of the Office of the Mississippi Attorney General can be present.

## **2.11 Protest of Solicitation or Award**

Any actual or prospective Offeror or Offerors who are aggrieved in connection with the solicitation or award of a contract may protest to DFA's Office of Procurement and Contracts. The protest shall be submitted in writing within three (3) business days of the Notice of Intent to Award or within three (3) business days of the solicitation posting if the protest is based on the solicitation.

A protest is considered filed when received by the Office of Procurement and Contracts. Protests filed after the three (3) business day period shall not be considered.

### **2.11.1 Content of Protest**

To expedite handling of protests, the envelope should be labeled "Protest". The written protest shall include as a minimum the following:

1. The name and address of the protestor;
2. Appropriate identification of the procurement and if a contract has been awarded, its number;
3. A statement of reasons for the protest; and,
4. Supporting exhibits, evidence, or documents to substantiate any claims unless not available within the filing time in which case the expected availability date shall be indicated.

### **2.11.2 Protest Decision**

If the protest is not resolved by mutual agreement, the Agency Head shall promptly issue a decision in writing. The decision shall: (a) state the reasons for the action taken; and (b) inform the protestor of the right to administrative review. A copy of the decision shall be mailed or otherwise furnished in writing immediately to the protestor and any other interested party.

### **SECTION 3.        MINIMUM QUALIFICATIONS**

The following minimum qualifications are mandatory. Please respond by restating each requirement, including the number, listed below with documentation that proves specifically how your firm meets that qualification. If, in the opinion of the Office of Procurement and Contracts, the Offeror fails to prove that the proposing firm meets any of these minimum qualifications, the proposal will be disqualified from further evaluation. If this happens, the Offeror will be notified of the decision and will have an opportunity to provide additional information to prove the firm does meet the minimum qualifications. It is the responsibility of the disqualified Offeror to respond timely and completely to any such notice as unreasonable delays and/or non-responsive submissions may result in the disqualification being upheld without further review.

1. Offerors must document a minimum of three (3) years of successful previous experience of being involved with the MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies or programs of similar scope and service as stated in this RFP.
2. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP, see Section 6 References.
3. Offeror represents that it will maintain workers' compensation insurance which shall inure to the benefit of all Offeror's personnel provided hereunder, comprehensive general liability or professional liability insurance, with minimum limits of \$1,000,000.00 per occurrence and fidelity bond insurance with minimum limits of \$1,000,000.00. All general liability, professional liability and fidelity bond insurance will provide coverage to the DFA as an additional insured. The DFA reserves the right to request from carriers, certificates of insurance regarding the required coverage. Insurance carriers must be licensed or hold a Certificate of Authority from the Mississippi Department of Insurance.
4. The Offeror shall be in compliance with Mississippi Code Annotated § 79-4-15.01 regarding authorization to transact business in Mississippi.
5. The Offeror must be registered with both the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and provide documentation as proof to the Municipal Series Licensed Registrations and/or any applicable certificates.

## SECTION 4. SCOPE OF SERVICES

This section contains information on services and procedures that the Advisor must provide either directly. The descriptions are not all-inclusive, but are provided to alert you to services or procedures that may require additional planning or programming on your part.

Please respond to **Section 4 – Scope of Services** by restating each service listed and confirm your intention to provide the service as described by responding, “*Confirmed*”. If your firm can provide the service, but not exactly as described, respond, “*Confirmed, but with exceptions*”, and state the specific exceptions. DFA will not accept any subcontractors for required services. Services must be performed by the responding Offeror. If your firm is currently unable to provide a listed service, respond by stating, “*Unable to provide this service*”. Any additional details regarding these services should be provided in your responses to the questionnaire, or as additional information included as an appendix to your proposal.

For clarification and consistency, the following definitions are given:

**District** – The term “District” denotes any of the various K-12 School Districts and Community and Junior College Districts which may acquire equipment under this program.

**State Agencies** – The Term “State Agencies” means any state board, commission, committee, council, university, department or unit thereof created by the Constitution or statutes if such board, commission, committee, council, university, department, unit or the head thereof is authorized to appoint subordinate staff by the Constitution or statute (except a legislative or judicial board, commission, committee, council, department or unit thereof; except a charter school authorized by the Mississippi Charter School Authorizer Board; and except the Mississippi State Port Authority) which may acquire equipment under this program.

**DFA, Office of Purchasing and Travel, or Office** – These terms may be used interchangeably throughout this RFP to denote the political entity issuing the RFP and requesting responses from Offerors.

**Advisor** – The term “Advisor” denotes the role assumed, post-award, by the winning Offeror.

**Offeror** – The term “Offeror” is used in conjunction with the proposing organization during the procurement process leading up to the final selection and award.

**State** – The term “State” denotes the State of Mississippi.

**Program(s)** – The term “Programs” is used to denote the contract that will be awarded as a result of this RFP to manage two separate Programs; (1) K-12 School Districts and Community and Junior College Districts, and (2) State Agencies.

The awarded Financial Advisor (Advisor) shall provide all Financial Advisor functions required for the administration and execution of the statutorily-authorized, established the MLPP including

using procedures and documents which will be used to obtain competitive bids for tax-exempt financing of various items of equipment by the Districts or State Agencies of the State of Mississippi. In addition, Advisor will provide all functions required to administer internally the MLPP including but not limited to invoicing, accounting of financings, payments, tracking, and other duties, for the life of the leases. A summary of the programs for the past five (5) years is attached as Appendix C.

1. Basic Program. Advisor shall be expected to assist the DFA using a Competitive Bid Process, whether public or private placement, for obtaining tax-exempt funding for the DFA's MLPP, including the preparation of basic financing documents, offering documents, and supporting documentation, in a manner which will result in financing offerings which are acceptable to financial markets and institutions and must not have a negative impact upon any other aspect of the State's financing opportunities. All documents and forms used shall be documents approved and adopted August 6, 2008 by the State Bond Commission.
2. Process. Advisor shall be expected to develop and administer the entire process from needs recognition to final payment with all applicable documentation. Advisor will also be expected to provide the DFA with checklists of occurrences which the DFA should consider throughout the process. It is understood that the process described herein is representative of a process of funding which utilizes Certificates of Participation (COPs). Offerors may submit proposals for other forms of financing and/or COP financing procedures in which some or all of the following requirements may not be applicable. Offerors are expected to fully describe in their proposals, which, if any, of the following procedures will not be complied with, and what procedures will be substituted to achieve the apparent intent of the requirement. It should be clear from these requirements that the DFA does not intend to perform many functions inhouse but rather that Advisor will be expected to perform a vast majority of the required activities.
3. The awarded Advisor shall periodically survey K-12 School Districts, Community and Junior College Districts and State Agencies to determine immediate and projected equipment needs. The equipment needs are required to be submitted to the DFA, OPTFM and Contractor using the approved Equipment Lease/Purchase Planning Form on an as needed basis, consolidate the equipment lease-purchase requirements of one or more Districts and the equipment lease purchase requirements of one or more State Agencies. This shall include, but not be limited to, developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs. All documents developed by Advisor related to the entire MLPPs shall be provided in a Word format, and transmitted electronically, to enable the Office to use the documents on all future issues of this and future Programs.
4. Advisor shall manage and coordinate the pre-financing process with the participating Districts and State Agencies.

5. Advisor shall educate potential participants (Districts, State Agencies, vendors, etc.) to ensure the potential participants have a sound working knowledge of the program, its structure, and applicable accounting and purchasing procedures. It should be noted that this often requires multiple one-on-one meetings and phone conversations with various individuals throughout the Districts and State Agencies. This educational plan includes, but is not limited to:
  - a. Assisting and educating the Districts and State Agencies in order that the Districts and State Agencies gain an understanding of the Programs' procurement and acquisition process.
  - b. Having staff available for statewide travel to meet with Districts and State Agencies and to make presentations to department personnel, as well as attend statewide conferences of purchasing officials.
6. Advisor shall consolidate the information received from the Districts and State Agencies. Advisor will analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.
7. If the acquisition involves software, Advisor shall examine the software license to determine, among other things, if a perpetual license is created so that a security interest in the software can be obtained.
8. Upon District and State Agency requests, Advisor shall create preliminary amortization schedules, usually necessary for budgetary purposes. This schedule is often used by the Districts and State Agencies to determine the economic feasibility of acquiring the equipment through financing.
9. Advisor shall create a spreadsheet with breakdowns by District and State Agency of equipment description, equipment cost, anticipated delivery, and acceptance dates.
10. Advisor shall contact the Department of Finance and Administration, Office of Purchasing and Travel with results of District and State Agency communications and make recommendations as to the timing of the next issue or, if necessary, obtain interim financing for specific pieces of equipment. If interim financing is requested and approved by the Office, Advisor will obtain an interim rate and prepare and distribute interim financing documentation.
11. If the entity is a State Agency, the Department of Finance and Administration, Office of Purchasing and Travel and the Public Procurement Review Board will approve or disapprove the list of equipment as indicated on the spreadsheet, Advisor shall gather information as to the essential governmental use of the equipment, as well as the State Agency's justification for the acquisition. This involves communication with each State Agency, as well as gathering information directly from potential vendors or from potential vendor brochures and pamphlets (NOTE: any acquisitions proposed in the Program must

follow all applicable procurement rules and regulations, including competitive solicitations where applicable, once the acquisition schedule is approved by the Public Procurement Review Board). Additionally, if the State Agency is establishing a Program that is designed to evolve over a period of time and will require equipment acquisitions in stages, Advisor will acquire a full understanding of the Program from its inception to full implementation to assist the State Agency in accurately assessing its equipment purchases. After the information has been received, Advisor will draft a description of each item of equipment being acquired to be included in offering materials and will provide a copy of the list to each State Agency to allow a review of the accuracy of the description prior to inclusion in the offering materials.

12. If the entity is a School District, or Community or Junior College, the entities are required to provide an approved/adopted Authorizing Resolution signed by the proper authorized agent and a completed certificate as to the authenticity of the Resolution. This action is necessary to authorize the entity to participate in the program. In addition to the authorizing Resolution, the previously referenced equipment spreadsheet is then reviewed by the Contractor and the Department of Finance and Administration, Office of Purchasing and Travel and will approve or disapprove the list of equipment as indicated on the spreadsheet.
13. If equipment involves telecommunications or computer equipment, Advisor shall obtain necessary approval from the Mississippi Department of Information Technology Services in addition to the Office of Purchasing and Travel.
14. Advisor shall prepare an initial sizing of the Program to determine time of financing.
15. Advisor shall determine market conditions by analyzing interest rates and reviewing comparable sales analyses and other market activity to optimize pricing, check forward municipal calendar, or private investor banks and contact the Mississippi Department of Finance and Administration Office of Purchasing and Travel, before making a recommendation as to timing of the deal.
16. Advisor shall analyze the structure of the financing from the perspective of state law and federal tax and securities laws and determine potential financing participants.
17. Advisor shall prepare basic financing documents, closing certificates, suggested opinions to be rendered at closing, offering materials, and documents required to assign title to certain equipment to the Department of Information Technology Services, if applicable.
18. Advisor shall distribute financing documents to all applicable parties at no additional cost.
19. If applicable, Advisor shall develop a rating strategy and presentation, prepare rating application, and submit to the rating agency after approval from the Department of Finance and Administration. Advisor shall also be responsible for obtaining a rating release from the rating agency, and, if applicable, credit enhancement for the Program.

20. Advisor shall solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.
21. Advisor shall revise documents pursuant to communications with parties to the transaction and distribute second drafts, if necessary, to all parties at no additional cost.
22. Advisor shall arrange for a bid process in order to obtain a guaranteed investment contract, if applicable. Advisor may not submit a bid on its behalf.
23. If financing through a public competitive bid process, Advisor shall prepare and arrange for publication notices of sale in the appropriate publications. Advisor shall register the sale through SureBid or a similar service for the purpose of receipt of bids deposits through SureBid. Advisor shall coordinate with Bidcomp/PARITY to arrange for receipt of on-line bids. Advisor either will attend the bid opening or will coordinate with the DFA by conference call and will analyze the bids and make a recommendation as to the low bidder.
24. Advisor shall prepare the Preliminary Offering Circular and the Final Offering Circular. Advisor will arrange for electronic distribution of the Preliminary Offering Circular through the services of I-deal or a similar service. Advisor shall prepare and will arrange for the printing and distribution of the Final Offering Circular to the winning underwriter. Advisor shall prepare the Certificates of Participation, proof of accuracy and forward to the Trustee for authentication and delivery to The Depository Trust Company (DTC).
25. If financing through a privately-placed competitive bid process, the Contractor shall prepare "The Term Sheet and proposal to Purchase State of Mississippi Master Lease Revenue COPs" and with the approval of the State, shall solicit bids from qualified purchasers who are either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended) or a qualified institutional buyer as defined under Rule 144A of the Securities Act of 1933, as amended, to purchase the COPs. (NOTE: Fees and expenses incurred by the Purchaser and owed to Purchaser's Counsel, if any, will be borne by the Purchaser and not by the State).
26. Advisor shall prepare amortization schedules by District and State Agency and, if requested, by group or piece of equipment and will communicate with each District and State Agency to verify final equipment amounts and lease terms and anticipated delivery schedules.
27. Advisor shall finalize financing and closing documents, attach amortization schedules, prepare multiple execution copies, coordinate receipt of executed opinions, and hold in escrow pending closing.
28. If an investment contract is obtained, Advisor shall coordinate receipt of accountant's verification report and opinion verifying cash flows under the lease, together with interest earnings derived from the investment contract, will be adequate to pay debt service on the Financing Agreement.

29. Advisor shall coordinate with the Department of Finance and Administration, Office of Purchasing and Travel to arrange pre-closing meetings with each District and State Agency, if necessary, travel to and attend pre-closing, obtain signatures of authorized representatives of each District and State Agency, as well as any other necessary signatures.
30. Advisor shall prepare and file applications for the receipt of CUSIP numbers in the event of a competitive sale and will file for eligibility under the DTC, coordinate closing with the Trustee, including preparation of the closing statement detailing flow of funds from investors to Trustee, and from Trustee to trust accounts.
31. Advisor shall provide investment instructions for escrowed funds in the Acquisition Account pursuant to the Trust Indenture.
32. Advisor shall confirm wiring instructions and confirm receipt of funds.
33. Advisor shall provide Trustee with executed counterparts of financing documents, opinions, certificates as to tax and no-arbitrage, and IRS Form 8038-G.
34. Advisor shall confirm with DTC that the documents have been received.
35. Advisor shall confirm settlement and closing with Trustee.
36. Advisor shall prepare and file UCC-1 Financing Statements and UCC-3 statements, if any, for each District and State Agency with the Secretary of State of the State of Mississippi. Advisor will prepare and timely file Form 8038-G with the Internal Revenue Service on behalf of DFA.
37. Advisor shall prepare and distribute closing transcripts.
38. Advisor shall prepare and distribute to the State a post-sale analysis detailing the results and market conditions for each competitive sale.
39. Advisor shall coordinate equipment acquisitions between Program participants and vendors.
40. As Disbursement Requests are received, Advisor shall review the applicable purchase orders, invoices, and vendor contracts for consistency and recalculate pricing accuracy.
41. Advisor shall match each Disbursement Request to the original spreadsheet to ensure that the equipment was contemplated for acquisition under the Program and review requested substitutions.
42. Advisor shall maintain balances for each piece of equipment and for each District and State Agency in conjunction with the Trustee.

43. Advisor shall transmit Disbursement Requests with proper attachments (e.g., purchase orders, invoices, and declaration of intent to reimburse) to Trustee for vendor payment.
44. Advisor shall prepare customized semi-annual invoices in summary and by District and State Agency and by equipment within a District and State Agency, if requested. Advisor will distribute invoices to the individual District and State Agency and the Department of Finance and Administration, Director, Office of Budget and Accounting 30 days prior to payment date.
45. Advisor shall coordinate with Trustee on lease payment discrepancies and late payments.
46. Advisor, on behalf of the Trustee, shall request copies of insurance policies or evidence of self-insurance on each District and State Agency and will request updated information on an annual basis.
47. Advisor shall assist the State in obtaining annual rebate and arbitrage calculations in compliance with federal tax law. The annual calculations will be provided at the State's expense.
48. Advisor periodically shall contact each District and State Agency with respect to draw-downs in the respective Acquisition Accounts. Based on the District's and State Agency's responses, Advisor will direct the Trustee to reinvest the acquisition funds in qualified investments, in accordance with the provision of the Trust Indenture.
49. Advisor shall perform semi-annual calculations to determine interest earnings in the Acquisition Account by District and State Agency and by equipment within a District and State Agency. After all rebate calculations have been performed, Advisor will determine the amount of interest earnings available for each District and State Agency, and will notify DFA of this amount. Advisor will arrange for the disbursements of such interest earnings at the discretion of DFA.
50. Semi-annually, Advisor shall report the status of the Acquisition Accounts by District and State Agency for all outstanding leases to the DFA, OPTFM.
51. If prepayment options are exercised, Advisor shall coordinate with the District and State Agency and Trustee in calculating pay-off amounts and timing.
52. Documents. Advisor shall assure that the process and documents comply with Rule 15(c) 2-12, as amended.
53. Laws. Advisor shall assure that all documents and procedures will comply with all federal and state laws and regulations governing the MLPP and will advise the State of any responsibilities concerning such laws which are or may be responsibilities of the State.

54. Legal Matters and Tax Exemption. Advisor shall prepare sample legal opinions which will support the documents and the process and indicate that the State's execution and delivery of any such documents will be subject to review and approval of the State's counsel. The State will be responsible for the cost of review by its counsel of all documentation related to the Agreement and any resulting funding. The Attorney General of the State will deliver an opinion that the Agreement and the supporting documentation constitute legal, valid, and binding obligations of the State, enforceable against the State and in accordance with their respective terms. Likewise, Advisor shall insure the State's approved tax counsel provides a tax counsel opinion to the State on the legality of documents, tax exempt status and conformity with Internal Revenue Code Regulations, which tax counsel opinion shall indicate that the State is qualified as a political subdivision under Section 103 of the Internal Revenue Code of 1986 and that the interest portion of any payments will constitute interest not to be included in gross income for purposes of federal and state income taxation. The State and Advisor will covenant to comply with all rules, regulations, or procedures required in order to establish or preserve the tax-exempt nature of any resulting certificates. Any resulting financing will not be a general obligation of the State.
55. Acquisition Fund. The documents and process shall insure that any interest earned on funds residing in the Acquisition Account shall accrue to the District and State Agency which has borrowed the funds and may be used to purchase additional equipment and/or to reduce the principal amount due, as directed by DFA.
56. Non-appropriation. The documents and process shall insure that continuation of the lease purchase of any item of equipment is contingent upon the annual appropriation of adequate funds to the using District and State Agency.
57. Miscellaneous. Advisor shall coordinate with DFA to maintain and update, as needed, the State's website for the Master Lease Programs.
58. Advisor shall assist the Office in the development of a solicitation for Bond and Tax Counsel.
59. Advisor shall assist the Office in the development of a solicitation for Trustee.

## SECTION 5. QUESTIONNAIRE

1. Provide the name, title, mailing address, e-mail address, and telephone number of the contact person for this proposal.
2. State the full name of the proposing firm and provide the address, and telephone number of the principal place of business.
3. List the office that will service DFA. If it is located at a different address than the home office, provide the complete address, phone number, and facsimile number for this office.
4. Describe your organizational structure. Indicate whether your firm operates as a corporation, partnership, individual, etc. If it is incorporated, include the state in which it is incorporated, and list the names and occupations of those individuals serving on your firm's Board of Directors.
5. List the name and principal occupation or business of any person or entity owning 10% or more of your firm.
6. Describe any ownership or name changes your firm has been through in the past three years. Are any ownership or name changes planned?
7. Describe any changes in the organizational structure that have occurred within your firm over the past twenty-four months or are anticipated during the next twenty-four months including, but not limited to, addition or elimination of product or business lines, mergers, firm acquisitions, etc.
8. How long has the proposing firm been providing financial advisory services? Please indicate the month and year in which the proposing firm was established.
9. What was the average number of employees in your firm for the past twelve months? Has this average changed in the past three years?
10. State if the proposed account executive, any officers or principals and/or their immediate families are, or have been within the preceding twelve months, employees of the State of Mississippi.
11. Has your firm ever been involved in a lawsuit involving any area covered by this RFP? If yes, provide details including dates and outcomes.
12. During the past five (5) years, has your company, related entities, principals or officers ever been a party in any material criminal litigation, whether directly related to this RFP or not? If so, provide details including dates and outcomes.
13. Has your firm been cited or threatened with citation within the last three years by federal or state regulators for violations of any federal, state, or local law or federal, state or local regulation? If the answer is yes, please describe the circumstances in detail.

14. Confirm that your firm is not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transaction by any federal department or agency, or by any political subdivision or agency of the State of Mississippi.
15. Provide a complete résumé for each staff member (in Tab 10 of your proposal) who will be assigned to render services to DFA, including detailed information on any special training or designations.
16. Please confirm the proposal is valid for at least 180 days subsequent to the date of submission.

## **SECTION 6. REFERENCES**

All of the requested references should be provided using the References Form in Appendix B.

1. Offerors must provide references from at least three (3) customers to whom the Offeror has provided functions similar to the scope described in this RFP. A description of the functions provided as well as the name, address, and phone number of a representative of the firm or entity must be included. Documentation concerning recent issues is also required. The documentation shall include a description of the equipment purchased as well as the amount financed, the date financed, and the interest rate obtained. The representative must have adequate knowledge of the documentation provided to be able to discuss with the State.

## SECTION 7. SERVICE PLAN

In preparing your written response to any RFP question or request for information, you are required to repeat each question, including the number, or requirement followed by your response. Please provide complete answers and explain all issues in a concise, direct manner. If you cannot provide a direct response for some reason (e.g., your firm does not collect or furnish certain information), please indicate the reason rather than providing general information that fails to answer the question. “Will discuss” and “will consider” are not appropriate answers.

1. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.
2. Description of information needed from a District and/or a State Agency to prepare the documentation required to acquire funding.
3. Copies of representative documents which have been used or could be used by other entities to establish similar programs and to obtain funding (to include, if applicable, a Master Lease Purchase Agreement, Arbitrage and Tax Certificate, Closing Certificate, District and State Agency Sublease Agreement, offering materials, legal opinion, etc).
4. Audited financial statements for the contracting entity shall be provided for each of the last five (5) years, including, at a minimum:
  - a. Statement of income;
  - b. Balance sheet;
  - c. Statement of changes in financial position during the last five (5) years;
  - d. Statement of cash flow;
  - e. Auditors’ reports;
  - f. Notes to financial statements; and,
  - g. Summary of significant accounting policies.

The State reserves the right to request any additional information to assure itself of an Offeror’s financial status.

5. Name, background, years of experience and proposals of personnel to be involved with the State of Mississippi MLPPs for K-12 School Districts and Community and Junior College Districts and State Agencies.
6. Offerors must submit a list of master equipment leases undertaken during the past three (3) years, grouping those from \$1 to \$5 million and from over \$5 million to \$10 million.

Information must include lessee name, equipment amount, method by which the lease was financed and an indication whether the lease was rated or insured.

7. Offerors must submit a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects. This should include any additional forms, records, or approvals which must be considered for items (a) – (d). It is the intent of this requirement to ascertain the Offerors' general knowledge of issues which have or may develop under the Programs.
8. Offerors must submit a suggested check list containing occurrences the State should consider concerning market conditions and the timing of financial transactions.
9. Offerors must submit a list of all Program limitations to include, but not be limited to, types of equipment and/or software which will not be covered by the agreement, minimum dollar amounts per transaction, and requirements for cross-collateralization of equipment within a District and State Agency and between Districts and State Agencies.
10. Offerors must submit a calendar of events from contract award to first financing. This calendar should include estimated dates and events which must take place prior to the initial financing.
11. Offerors must submit a complete description of the method or methods that will be used to obtain funding. This description shall explain how interest rates will be determined (sealed bid, negotiation, etc.) and shall fully describe how the State will be able to assure that the interest rates are competitive in the market and represent a good rate for the Districts and State Agencies. If multiple methods are proposed, the Offeror shall describe the circumstances which would require the use of the various methods.
12. What level of staff will be used for the following: developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs.
13. Please provide the total years of experience and state experience for the Staff Lead Manager.
14. Please provide the total years of experience and state experience for the proposed staff/team.
15. If necessary how fast can members of the proposed staff be replaced, regardless of level.
16. What level of staff will be used to manage and coordinate the pre-financing process between Districts and State Agencies.

17. What level of staff will be examining the software licenses?
18. What level of staffing will review applicable purchase orders, invoices, and vendor contracts for consistency and recalculate for pricing accuracy.
19. Describe the education plan that the Offeror will use to educate Districts, State Agencies, and vendors to ensure potential participants have a sound working of the program, its structure, and applicable accounting and purchasing procedures.
20. Describe the analytical methods utilized to analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.
21. Provide examples of past similar work, featuring spreadsheet breakdowns by client, or District or State Agency. Spreadsheets may include but not limited to: equipment description, equipment cost, anticipated delivery, and acceptance.
22. Describe the method of Distribution for financing documents to all applicable parties.
23. Describe the method(s) the advisor utilized to solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.
24. Describe the Bid method used to obtaining a guaranteed investment contract.
25. Describe the instruction process in detail for escrowed funds in the Acquisition Account pursuant to Trust Indenture.
26. Describe the distribution process the Advisor will use for closing transcripts and post-sale analysis.
27. Provide an example of the post-sale analysis report, referencing past similar work.
28. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Bond and Tax Counsel? Please describe.
29. Provide an explanation of the following: Can advisor assist the Office in the development of a solicitation for Trustee? Please describe.
30. A complete description of the programs, which must describe the events which will take place as well as the documents that will be used. This should include a description of the educational and training programs that will be used.
31. Provide a detailed explanation of any legal, financial or other concerns which would pertain to the following situations: (a) lease purchase of an airplane, (b) funds remaining in an acquisition account for three years, (c) pay off prior to the final scheduled payment date, and (d) change orders which require additional funding for previously funded projects. This should include any additional forms, records, or approvals which must be considered for items (a) – (d). Rate the Offerors' general knowledge of issues which have or may

develop under the Programs.

32. Offerors must submit a complete description of the method or methods that will be used to obtain funding.

## SECTION 8. FEE SCHEDULE

DFA's requirements regarding compensation are as follows:

1. The fees listed in ***Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services*** shall constitute the entire compensation due to the Advisor for services and all of the Advisor's obligations hereunder regardless of the difficulty, materials, or equipment required. The fees include, but are not limited to, all applicable taxes, fees, general office expense, travel, overhead, profit, and all other direct and indirect costs, incurred or to be incurred, by the Advisor. DFA shall not provide any prepayments or initial deposits in advance of services being rendered. Only those services agreed to by contract shall be considered for reimbursement/compensation by DFA. Payment for any and all services provided by Advisor to DFA shall be made only after said services have been duly performed and properly invoiced. The fees listed in ***Section 8 – Fee Schedule for Master Lease Program Financial Advisor Services*** of this contract are firm for the duration of this contract and are not subject to escalation for any reason, unless this contract is duly amended.
2. In the event DFA requests and authorizes Advisor for the performance of any of the services covered under this Contract for which travel expenses are not already included, compensation to Advisor for travel, meals and/or lodging must be approved in advance and shall be allowed subject to the following criteria:
  - a. In order to be compensable by DFA, travel expenses must be reasonable and necessary for the fulfillment of the project and contractual obligations;
  - b. Air travel reimbursement will be limited to "Coach" or "Tourist" class rates, and must be supported by a copy of an original invoice;
  - c. Meals and lodging expenses will be reimbursed in the amount of actual costs, subject to the maximum per diem as defined in the Federal Register. A copy of all hotel receipts must be provided. A copy of meal receipts is not necessary;
  - d. Taxi fares, reasonable rental car expenses, and airport parking expenses will be reimbursed in the amount of actual costs, and must be supported by a copy of an original receipt/invoice;
  - e. Personal automobile mileage and related costs are not compensable expenses;
  - f. Time spent in "travel status" is not compensable.

**Fee Schedule for Master Lease Programs Financial Advisor Services**

Proposers are asked to indicate the cost per \$1000 issued. As per the specifications, all costs not otherwise indicated should be included in the cost per \$1000 issued and will be included in the proceeds and will be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>3 Year Total</b>	<b>Year 4*</b>	<b>Year 5*</b>	<b>5* year Total</b>
<b>K-12 School Districts and Community and Jr College Districts</b>	\$	\$	\$	\$	\$	\$	\$
<b>State Agencies</b>	\$	\$	\$	\$	\$	\$	\$

*\*Indicates possible renewal year.*

Indicate below or on an attached page, any costs which the DFA or the Districts and State Agencies will incur which are not included in the cost per \$1000 issued. Include a complete description of the cost and the estimated cost. Any such costs shall also be included in the proceeds and be amortized to the participating Districts and State Agencies on their amortization schedule and annual invoice.

**SECTION 9.        SIGNED ACKNOWLEDGEMENT OF RFP  
AMENDMENTS (if necessary)**

## **SECTION 10. RESUMES FOR KEY STAFF**

## **SECTION 11.     ADDITIONAL INFORMATION**

## Appendix A – Statement of Qualifications Cover Sheet

Firm Name: \_\_\_\_\_

Proposals are to be submitted as directed in *Section 1.2.1, Proposal Submission Period*, of this RFP, on or before Friday, September 3, 2021 by 2:00 PM CST.

<b>Firm Representative</b>	
<b>Firm Representative Title</b>	
<b>Firm Representative Mailing Address</b>	
<b>Firm Representative Mailing City, State, Zip</b>	
<b>Firm Representative Telephone</b>	
<b>Firm Representative E-Mail Address</b>	

*Please identify the Office/Branch which will provide services for DFA if different from above:*

<b>Office Contact Person</b>	
<b>Office Contact Person Telephone Number</b>	
<b>Office Contact Person Email Address</b>	
<b>Office Contact Person Physical Address</b>	
<b>Office Contact Person City, State, Zip</b>	
<b>Office Contact Person Mailing Address</b>	
<b>Office Contact Person City, State, Zip</b>	

Are you currently registered as a Supplier in MAGIC? \_\_\_\_ YES \_\_\_\_ NO

If known, what is your supplier number? \_\_\_\_\_

Are you currently registered with PayMode? \_\_\_\_ YES \_\_\_\_ NO

By signing below, the firm representative certifies that he/she has authority to bind the firm, and further acknowledges and certifies on behalf of the firm:

1. That the Offeror will perform the services required at the prices stated in their proposal;
2. That the pricing submitted will remain firm for the contract term; and,
3. That, to the best of its knowledge and belief, the cost or pricing data submitted is accurate, complete, and current as of the submission date.
4. That the Offeror has submitted copies of the required insurance certificates to meet the Minimum Qualifications as stated in ***Section 3, Minimum Qualifications***, and should the Offeror be awarded the contract, will add the State of Mississippi as an additional insured;
5. That the firm is licensed or authorized to provide the proposed services in the State of Mississippi.
6. The State of Mississippi utilizes the Mississippi Accountability System for Government Information and Collaboration (MAGIC) system to manage contracts. Additionally, electronic payments are issued through an electronic portal called PayMode. In order to do business with the State of Mississippi, all Suppliers must be registered with both systems. By submitting a proposal, the Offeror certifies that it is registered with both systems or if not already registered, that it will do so within seven (7) business days of being notified by DFA Office of Procurement and Contracts that it has been awarded a contract.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Appendix B - References

<b>Client Name</b>	
<b>Contact Name and Title</b>	
<b>Contact Address</b>	
<b>Contact Telephone Number</b>	
<b>Email Address</b>	
<b>Type of work provided to the client</b>	
<b>Number of covered lives in the client's group</b>	
<b>Contract effective dates for the time period(s) services provided to client</b>	

<b>Client Name</b>	
<b>Contact Name and Title</b>	
<b>Contact Address</b>	
<b>Contact Telephone Number</b>	
<b>Email Address</b>	
<b>Type of work provided to the client</b>	
<b>Contract effective dates for the time period(s) services provided to client</b>	

<b>Client Name</b>	
<b>Contact Name and Title</b>	
<b>Contact Address</b>	
<b>Contact Telephone Number</b>	
<b>Email Address</b>	
<b>Type of work provided to the client</b>	
<b>Contract effective dates for the time period(s) services provided to client</b>	

*Additional references to meet the requirements of the procurement should be submitted on a separate page.*

## Appendix C – Summary of Previous Purchases

## Appendix C - Summary of Previous Purchases

<b>Series 2016A Master Lease Purchase</b>	<b>Dated Date:</b> May 19, 2016
<b>Certificates of Participation:</b>	\$3,355,000
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	4/2021
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	1.606098%

<b>Agency</b>	<b>Equipment</b>	<b>Amount</b>	<b>Total for Agency</b>
<b><i>Department of Transportation</i></b>	Vehicles and heavy road equipment		<b>\$2,434,500.00</b>
<b><i>Mississippi Valley State University</i></b>	Law enforcement vehicles with headlamps and light assemblies	\$ 41,564.00	
	Passenger buses	<u>\$365,940.00</u>	<b>\$ 407,504.00</b>
<b><i>Jackson State University</i></b>	Musical Instruments		<b>\$ 463,638.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2016A</b>			<b><u>\$3,305,642.00</u></b>

<b>SERIES 2017A Master Lease Purchase</b>	<b>Dated Date:</b> February 7, 2017
<b>Certificates of Participation:</b>	\$1,855,000.00
<b>Reserve Fund:</b>	10%
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	10/2021
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	2.200546%

<u>Agency</u>	<u>Equipment</u>	<u>Amount</u>	<u>Total for Agency</u>
<i>Department of Transportation</i>	Vehicle and heavy equipment	\$1,207,000.00	
	Weight deflectometer	\$ 200,000.00	
	X-Ray for chemical analysis	\$ 230,000.00	

<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2017A</b>	<b><u>\$1,637,000.00</u></b>
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<b>SERIES 2017B Master Lease Purchase</b>	<b>Dated Date:</b> July 26, 2017
<b>Certificates of Participation:</b>	\$4,945,000.00
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	4/2027
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	2.220317%

<u>Agency</u>	<u>Equipment</u>	<u>Amount</u>	<u>Total for Agency</u>
<b><i>Jackson Public School District</i></b>	Passenger buses	\$3,714,165.00	
	Passenger bus with wheel chair lift	<u>\$ 259,452.00</u>	<b>\$3,973,617.00</b>
<b><i>Columbus Municipal School District</i></b>	Passenger buses		<b>\$ 892,000.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2017B</b>			<b><u>\$4,865,617.00</u></b>

<b>SERIES 2018A Master Lease Purchase</b>	<b>Dated Date:</b> June 29, 2018
<b>Certificates of Participation:</b>	\$3,415,000
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	4/2028
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	3.121011%

<b>Agency</b>	<b>Equipment</b>	<b>Amount</b>	<b>Total for Agency</b>
<b><i>Department of Agriculture and Commerce</i></b>	vehicles, office equipment, technology hardware, law enforcement vehicles		<b>\$1,500,000.00</b>
<b><i>Department of Revenue</i></b>	computer and technology hardware		<b>\$ 319,190.00</b>
<b><i>Cleveland School District</i></b>	school buses		<b>\$1,218,607.00</b>
<b><i>North Panola School District</i></b>	school buses		<b>\$ 312,750.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2018A</b>			<b><u>\$3,350,547.00</u></b>

<b>SERIES 2018B Master Lease Purchase</b>	<b>Dated Date:</b> October 18, 2018
<b>Certificates of Participation:</b>	\$3,685,000
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	10/2023
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	2.960067%

<b><u>Agency</u></b>	<b><u>Equipment</u></b>	<b><u>Amount</u></b>	<b><u>Total for Agency</u></b>
<i>Department of Transportation</i>	heavy road equipment		<b>\$2,840,000.00</b>
<i>Alcorn School District</i>	school buses		<b>\$ 784,500.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2018B</b>			<b><u>\$3,624,250.00</u></b>

<b>SERIES 2019A Master Lease Purchase</b>	<b>Dated Date:</b> July 18, 2019
<b>Certificates of Participation:</b>	\$4,105,000.00
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	4/2029
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	2.400576%

<b>Agency</b>	<b>Equipment</b>	<b>Amount</b>	<b>Total for Agency</b>
<b><i>Department of Corrections</i></b>	vehicles	\$1,347,870.00	
	Tractor and heavy farm equipment	<u>\$1,080,000.00</u>	<b>\$2,040,870.00</b>
<b><i>Department of Animal Health</i></b>	trucks/vehicles		<b>\$ 168,425.00</b>
<b><i>Cleveland School District</i></b>	security equipment, door access controls and related software		<b>\$ 827,918.04</b>
<b><i>Greene County School District</i></b>	School buses/ trucks/vehicles and various classroom furniture		<b>\$1,000,000.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2019A</b>			<b><u>\$4,037,213.04</u></b>

<b>SERIES 2020A Master Lease Purchase</b>	<b>Dated Date:</b> March 5, 2020
<b>Certificates of Participation:</b>	\$1,305,000.00
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	10/2024
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	1.940374%

<b><u>Agency</u></b>	<b><u>Equipment</u></b>	<b><u>Amount</u></b>	<b><u>Total for Agency</u></b>
<i><b>Ellisville State School</b></i>	Electronic Health Records System Computers; switches and required installation		<b>\$ 877,532.00</b>
<i><b>Copiah-Lincoln Community College</b></i>	computers; lecterns; and security equipment		<b>\$ 400,000.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2020A</b>			<b><u>\$1,277,532.00</u></b>

<b>SERIES 2020B Master Lease Purchase</b>	<b>Dated Date:</b> December 17, 2020
<b>Certificates of Participation:</b>	\$1,945,000.00
<b>Reserve Fund:</b>	N/A
<b>Rating:</b>	N/A
<b>Final Maturity:</b>	10/2025
<b>Type of Sale:</b>	Private Placement
<b>True Interest Cost:</b>	1.400216%

<b><u>Agency</u></b>	<b><u>Equipment</u></b>	<b><u>Amount</u></b>	<b><u>Total for Agency</u></b>
<i><b>Ellisville State School</b></i>	Electronic Health Records System Computers; switches and required installation		<b>\$ 407,920.00</b>
<i><b>Boswell Regional Center</b></i>	Electronic Health Record Software and required installation		<b>\$1,410,178.00</b>
<i><b>Board of Animal Health</b></i>	vehicles		<b>\$ 88,614.00</b>
<b>TOTAL EQUIPMENT COSTS FINANCED FOR SERIES 2020B</b>			<b><u>\$1,906,712.00</u></b>

## **Appendix D - Draft Master Lease Program Financial Advisor Services Contract**



STATE OF MISSISSIPPI  
GOVERNOR TATE REEVES

DEPARTMENT OF FINANCE AND ADMINISTRATION

LIZ WELCH  
EXECUTIVE DIRECTOR

**FINANCIAL ADVISOR SERVICES FOR THE MASTER LEASE PURCHASE  
PROGRAMS CONTRACT**

This Financial Advisor Services for the Master Lease Purchase Programs Contract (Contract) is made by and between the State of Mississippi Department of Finance and Administration (DFA), on behalf of the Office of Purchasing Travel and Fleet Management (OPTFM), and [Selected Contractor], (Advisor) effective October 1, 2021, under the following terms and conditions under which the Advisor agrees to provide services to DFA.

**1. Scope of Services**

- 1) Basic Program. Advisor shall be expected to assist the DFA using a Competitive Bid Process, whether public or private placement, for obtaining tax-exempt funding for the DFA's MLPP, including the preparation of basic financing documents, offering documents, and supporting documentation, in a manner which will result in financing offerings which are acceptable to financial markets and institutions and must not have a negative impact upon any other aspect of the State's financing opportunities. All documents and forms used shall be documents approved and adopted August 6, 2008 by the State Bond Commission.
- 2) Process. Advisor shall be expected to develop and administer the entire process from needs recognition to final payment with all applicable documentation. Advisor will also be expected to provide the DFA with checklists of occurrences which the DFA should consider throughout the process. It is understood that the process described herein is representative of a process of funding which utilizes Certificates of Participation (COPs). Offerors may submit proposals for other forms of financing and/or COP financing procedures in which some or all of the following requirements may not be applicable. Offerors are expected to fully describe in their proposals, which, if any, of the following procedures will not be complied with, and what procedures will be substituted to achieve the apparent intent of the requirement. It should be clear from these requirements that the DFA does not intend to perform many functions inhouse but rather that Advisor will be expected to perform a vast majority of the required activities.
- 3) The awarded Advisor shall periodically survey K-12 School Districts, Community and Junior College Districts and State Agencies to determine immediate and projected equipment needs. The equipment needs are required to be submitted to

the DFA, OPTFM and Contractor using the approved Equipment Lease/Purchase Planning Form on an as needed basis, consolidate the equipment lease-purchase requirements of one or more Districts and the equipment lease purchase requirements of one or more State Agencies. This shall include, but not be limited to, developing program descriptions for use by the Districts and State Agencies, a description of information needed prior to receiving funds, and a generic calendar of events for use by the Districts and State Agencies in understanding the Programs. All documents developed by Advisor related to the entire MLPPs shall be provided in a Word format, and transmitted electronically, to enable the Office to use the documents on all future issues of this and future Programs.

- 4) Advisor shall manage and coordinate the pre-financing process with the participating Districts and State Agencies.
- 5) Advisor shall educate potential participants (Districts, State Agencies, vendors, etc.) to ensure the potential participants have a sound working knowledge of the program, its structure, and applicable accounting and purchasing procedures. It should be noted that this often requires multiple one-on-one meetings and phone conversations with various individuals throughout the Districts and State Agencies. This educational plan includes, but is not limited to:
  - a. Assisting and educating the Districts and State Agencies in order that the Districts and State Agencies gain an understanding of the Programs' procurement and acquisition process.
  - b. Having staff available for statewide travel to meet with Districts and State Agencies and to make presentations to department personnel, as well as attend statewide conferences of purchasing officials.
- 6) Advisor shall consolidate the information received from the Districts and State Agencies. Advisor will analyze the character of collateral, useful life of equipment, timing of equipment delivery, cost elements of equipment, and will review vendor contracts and timing of vendor payments.
- 7) If the acquisition involves software, Advisor shall examine the software license to determine, among other things, if a perpetual license is created so that a security interest in the software can be obtained.
- 8) Upon District and State Agency requests, Advisor shall create preliminary amortization schedules, usually necessary for budgetary purposes. This schedule is often used by the Districts and State Agencies to determine the economic feasibility of acquiring the equipment through financing.
- 9) Advisor shall create a spreadsheet with breakdowns by District and State Agency of equipment description, equipment cost, anticipated delivery, and acceptance dates.

- 10) Advisor shall contact the Department of Finance and Administration, Office of Purchasing and Travel with results of District and State Agency communications and make recommendations as to the timing of the next issue or, if necessary, obtain interim financing for specific pieces of equipment. If interim financing is requested and approved by the Office, Advisor will obtain an interim rate and prepare and distribute interim financing documentation.
- 11) If the entity is a State Agency, the Department of Finance and Administration, Office of Purchasing and Travel and the Public Procurement Review Board will approve or disapprove the list of equipment as indicated on the spreadsheet, Advisor shall gather information as to the essential governmental use of the equipment, as well as the State Agency's justification for the acquisition. This involves communication with each State Agency, as well as gathering information directly from potential vendors or from potential vendor brochures and pamphlets (NOTE: any acquisitions proposed in the Program must follow all applicable procurement rules and regulations, including competitive solicitations where applicable, once the acquisition schedule is approved by the Public Procurement Review Board). Additionally, if the State Agency is establishing a Program that is designed to evolve over a period of time and will require equipment acquisitions in stages, Advisor will acquire a full understanding of the Program from its inception to full implementation to assist the State Agency in accurately assessing its equipment purchases. After the information has been received, Advisor will draft a description of each item of equipment being acquired to be included in offering materials and will provide a copy of the list to each State Agency to allow a review of the accuracy of the description prior to inclusion in the offering materials.
- 12) If the entity is a School District, or Community or Junior College, the entities are required to provide an approved/adopted Authorizing Resolution signed by the proper authorized agent and a completed certificate as to the authenticity of the Resolution. This action is necessary to authorize the entity to participate in the program. In addition to the authorizing Resolution, the previously referenced equipment spreadsheet is then reviewed by the Contractor and the Department of Finance and Administration, Office of Purchasing and Travel and will approve or disapprove the list of equipment as indicated on the spreadsheet.
- 13) If equipment involves telecommunications or computer equipment, Advisor shall obtain necessary approval from the Mississippi Department of Information Technology Services in addition to the Office of Purchasing and Travel.
- 14) Advisor shall prepare an initial sizing of the Program to determine time of financing.
- 15) Advisor shall determine market conditions by analyzing interest rates and reviewing comparable sales analyses and other market activity to optimize pricing, check forward municipal calendar, or private investor banks and contact the Mississippi Department of Finance and Administration Office of Purchasing and Travel, before making a recommendation as to timing of the deal.

- 16) Advisor shall analyze the structure of the financing from the perspective of state law and federal tax and securities laws and determine potential financing participants.
- 17) Advisor shall prepare basic financing documents, closing certificates, suggested opinions to be rendered at closing, offering materials, and documents required to assign title to certain equipment to the Department of Information Technology Services, if applicable.
- 18) Advisor shall distribute financing documents to all applicable parties at no additional cost.
- 19) If applicable, Advisor shall develop a rating strategy and presentation, prepare rating application, and submit to the rating agency after approval from the Department of Finance and Administration. Advisor shall also be responsible for obtaining a rating release from the rating agency, and, if applicable, credit enhancement for the Program.
- 20) Advisor shall solicit program fees and make award recommendation for Trustee, Trustee's attorney, and rating agency, if applicable.
- 21) Advisor shall revise documents pursuant to communications with parties to the transaction and distribute second drafts, if necessary, to all parties at no additional cost.
- 22) Advisor shall arrange for a bid process in order to obtain a guaranteed investment contract, if applicable. Advisor may not submit a bid on its behalf.
- 23) If financing through a public competitive bid process, Advisor shall prepare and arrange for publication notices of sale in the appropriate publications. Advisor shall register the sale through SureBid or a similar service for the purpose of receipt of bids deposits through SureBid. Advisor shall coordinate with Bidcomp/PARITY to arrange for receipt of on-line bids. Advisor either will attend the bid opening or will coordinate with the DFA by conference call and will analyze the bids and make a recommendation as to the low bidder.
- 24) Advisor shall prepare the Preliminary Offering Circular and the Final Offering Circular. Advisor will arrange for electronic distribution of the Preliminary Offering Circular through the services of I-deal or a similar service. Advisor shall prepare and will arrange for the printing and distribution of the Final Offering Circular to the winning underwriter. Advisor shall prepare the Certificates of Participation, proof of accuracy and forward to the Trustee for authentication and delivery to The Depository Trust Company (DTC).
- 25) If financing through a privately-placed competitive bid process, the Contractor shall prepare "The Term Sheet and proposal to Purchase State of Mississippi Master Lease Revenue COPs" and with the approval of the State, shall solicit bids from qualified purchasers who are either an "accredited investor" within the meaning of Rule 501(a) promulgated under the Securities Act of 1933, as amended) or a qualified institutional buyer as defined under Rule 144A of the Securities Act of 1933, as amended, to purchase

the COPs. (NOTE: Fees and expenses incurred by the Purchaser and owed to Purchaser's Counsel, if any, will be borne by the Purchaser and not by the State).

- 26) Advisor shall prepare amortization schedules by District and State Agency and, if requested, by group or piece of equipment and will communicate with each District and State Agency to verify final equipment amounts and lease terms and anticipated delivery schedules.
- 27) Advisor shall finalize financing and closing documents, attach amortization schedules, prepare multiple execution copies, coordinate receipt of executed opinions, and hold in escrow pending closing.
- 28) If an investment contract is obtained, Advisor shall coordinate receipt of accountant's verification report and opinion verifying cash flows under the lease, together with interest earnings derived from the investment contract, will be adequate to pay debt service on the Financing Agreement.
- 29) Advisor shall coordinate with the Department of Finance and Administration, Office of Purchasing and Travel to arrange pre-closing meetings with each District and State Agency, if necessary, travel to and attend pre-closing, obtain signatures of authorized representatives of each District and State Agency, as well as any other necessary signatures.
- 30) Advisor shall prepare and file applications for the receipt of CUSIP numbers in the event of a competitive sale and will file for eligibility under the DTC, coordinate closing with the Trustee, including preparation of the closing statement detailing flow of funds from investors to Trustee, and from Trustee to trust accounts.
- 31) Advisor shall provide investment instructions for escrowed funds in the Acquisition Account pursuant to the Trust Indenture.
- 32) Advisor shall confirm wiring instructions and confirm receipt of funds.
- 33) Advisor shall provide Trustee with executed counterparts of financing documents, opinions, certificates as to tax and no-arbitrage, and IRS Form 8038-G.
- 34) Advisor shall confirm with DTC that the documents have been received.
- 35) Advisor shall confirm settlement and closing with Trustee.
- 36) Advisor shall prepare and file UCC-1 Financing Statements and UCC-3 statements, if any, for each District and State Agency with the Secretary of State of the State of Mississippi. Advisor will prepare and timely file Form 8038-G with the Internal Revenue Service on behalf of DFA.

- 37) Advisor shall prepare and distribute closing transcripts.
- 38) Advisor shall prepare and distribute to the State a post-sale analysis detailing the results and market conditions for each competitive sale.
- 39) Advisor shall coordinate equipment acquisitions between Program participants and vendors.
- 40) As Disbursement Requests are received, Advisor shall review the applicable purchase orders, invoices, and vendor contracts for consistency and recalculate pricing accuracy.
- 41) Advisor shall match each Disbursement Request to the original spreadsheet to ensure that the equipment was contemplated for acquisition under the Program and review requested substitutions.
- 42) Advisor shall maintain balances for each piece of equipment and for each District and State Agency in conjunction with the Trustee.
- 43) Advisor shall transmit Disbursement Requests with proper attachments (e.g., purchase orders, invoices, and declaration of intent to reimburse) to Trustee for vendor payment.
- 44) Advisor shall prepare customized semi-annual invoices in summary and by District and State Agency and by equipment within a District and State Agency, if requested. Advisor will distribute invoices to the individual District and State Agency and the Department of Finance and Administration, Director, Office of Budget and Accounting 30 days prior to payment date.
- 45) Advisor shall coordinate with Trustee on lease payment discrepancies and late payments.
- 46) Advisor, on behalf of the Trustee, shall request copies of insurance policies or evidence of self-insurance on each District and State Agency and will request updated information on an annual basis.
- 47) Advisor shall assist the State in obtaining annual rebate and arbitrage calculations in compliance with federal tax law. The annual calculations will be provided at the State's expense.
- 48) Advisor periodically shall contact each District and State Agency with respect to draw-downs in the respective Acquisition Accounts. Based on the District's and State Agency's responses, Advisor will direct the Trustee to reinvest the acquisition funds in qualified investments, in accordance with the provision of the Trust Indenture.
- 49) Advisor shall perform semi-annual calculations to determine interest earnings in the Acquisition Account by District and State Agency and by equipment within a District and State Agency. After all rebate calculations have been performed, Advisor will determine

the amount of interest earnings available for each District and State Agency, and will notify DFA of this amount. Advisor will arrange for the disbursements of such interest earnings at the discretion of DFA.

- 50) Semi-annually, Advisor shall report the status of the Acquisition Accounts by District and State Agency for all outstanding leases to the DFA, OPTFM.
- 51) If prepayment options are exercised, Advisor shall coordinate with the District and State Agency and Trustee in calculating pay-off amounts and timing.
- 52) Documents. Advisor shall assure that the process and documents comply with Rule 15(c) 2-12, as amended.
- 53) Laws. Advisor shall assure that all documents and procedures will comply with all federal and state laws and regulations governing the MLPP and will advise the State of any responsibilities concerning such laws which are or may be responsibilities of the State.
- 54) Legal Matters and Tax Exemption. Advisor shall prepare sample legal opinions which will support the documents and the process and indicate that the State's execution and delivery of any such documents will be subject to review and approval of the State's counsel. The State will be responsible for the cost of review by its counsel of all documentation related to the Agreement and any resulting funding. The Attorney General of the State will deliver an opinion that the Agreement and the supporting documentation constitute legal, valid, and binding obligations of the State, enforceable against the State and in accordance with their respective terms. Likewise, Advisor shall insure the State's approved tax counsel provides a tax counsel opinion to the State on the legality of documents, tax exempt status and conformity with Internal Revenue Code Regulations, which tax counsel opinion shall indicate that the State is qualified as a political subdivision under Section 103 of the Internal Revenue Code of 1986 and that the interest portion of any payments will constitute interest not to be included in gross income for purposes of federal and state income taxation. The State and Advisor will covenant to comply with all rules, regulations, or procedures required in order to establish or preserve the tax-exempt nature of any resulting certificates. Any resulting financing will not be a general obligation of the State.
- 55) Acquisition Fund. The documents and process shall insure that any interest earned on funds residing in the Acquisition Account shall accrue to the District and State Agency which has borrowed the funds and may be used to purchase additional equipment and/or to reduce the principal amount due, as directed by DFA.
- 56) Non-appropriation. The documents and process shall insure that continuation of the lease purchase of any item of equipment is contingent upon the annual appropriation of adequate funds to the using District and State Agency.

57) Miscellaneous. Advisor shall coordinate with DFA to maintain and update, as needed, the State's website for the Master Lease Programs.

58) Advisor shall assist the Office in the development of a solicitation for Bond and Tax Counsel.

59) Advisor shall assist the Office in the development of a solicitation for Trustee.

## 2. **Contract Term**

- A. The effective date of this Contract will be **October 1, 2021**. This Contract's term will be for three (3) years with two (2) optional one-year renewal to be exercised in the discretion of DFA.
- B. All records and information provided by DFA to the Advisor are the sole property of the DFA and shall be returned to the DFA within thirty (30) days of the termination date of this Contract.
- C. Upon termination of this Contract, the Advisor shall cooperate with the DFA and the new Advisor during the transition of the DFA's business to the new Advisor. Upon request from the DFA, the Advisor shall provide all DFA information maintained by the Advisor in a time frame specified by the DFA.

## 3. **Consideration**

The DFA agrees to compensate the Advisor for services approved by the DFA and performed by the Advisor under the terms of this Contract as follows:

- A. The fees listed in **Exhibit A – Pricing** shall constitute the entire compensation due to the Advisor for services and all of the Advisor's obligations hereunder regardless of the difficulty, materials, or equipment required. The DFA shall not provide any prepayments or initial deposits in advance of services being rendered. Payment for any and all services provided by the Advisor to the DFA shall be made only after said services have been duly performed and properly invoiced. The fees listed in **Exhibit A – Pricing** of this Contract are firm for the duration of this Contract and are not subject to escalation for any reason, unless this Contract is duly amended.
- B. The Advisor must submit all invoices, in a form acceptable to the DFA (provided that such acceptance will not be unreasonably withheld) with all the necessary supporting documentation, prior to any payment to the Advisor. No additional compensation will be provided by the DFA for any expense, cost, or fee not specifically authorized by this Contract, or by written authorization from the DFA.
- C. The payment of an invoice by the DFA shall not prejudice the DFA's right to object or question any invoice or matter in relation thereto. Such payment by the DFA shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any costs invoiced therein. The Advisor's invoice or payment may be subject to further reduction for amounts included in any invoice or payment

theretofore made which are determined by the DFA, on the basis of audits, not to constitute allowable costs.

**4. Availability of Funds**

It is expressly understood and agreed that the obligation of the DFA to proceed under this Contract is conditioned upon the appropriation of funds by the Mississippi State Legislature and the receipt of state and/or federal funds. If the funds anticipated for the continuing fulfillment of the Contract are, at any time, not forthcoming or insufficient, either through the failure of the federal government to provide funds or of the State of Mississippi to appropriate funds or the discontinuance or material alteration of the program under which funds were provided or if funds are not otherwise available to the DFA, the DFA shall have the right upon ten (10) working days written notice to Advisor, to terminate this Contract without damage, penalty, cost or expenses to the DFA of any kind whatsoever. The effective date of termination shall be as specified in the notice of termination.

**5. E-Payment**

Advisor agrees to accept all payments in United States currency via the State of Mississippi's electronic payment and remittance vehicle. The agency agrees to make payment in accordance with Mississippi law on "Timely Payments for Purchases by Public Bodies," which generally provides for payment of undisputed amounts by the agency within forty-five (45) days of receipt of invoice. Mississippi Code Annotated § 31-7-301 *et seq.*

**6. Paymode**

Payments by state agencies using the State's accounting system shall be made and remittance information provided electronically as directed by the State. These payments shall be deposited into the bank account of Advisor's choice. The State may, at its sole discretion, require Advisor to electronically submit invoices and supporting documentation at any time during the term of this Contract. Advisor understands and agrees that the State is exempt from the payment of taxes. All payments shall be in United States currency.

**7. Recovery of Money**

Whenever, under the Contract, any sum of money shall be recoverable from or payable by the Advisor to the DFA, the same amount may be deducted from any sum due to the Advisor under the Contract or under any other Contract between the Advisor and the DFA. The rights of the DFA are in addition and without prejudice to any other right the DFA may have to claim the amount of any loss or damage suffered by the DFA on account of the acts or omissions of the Advisor.

**8. Applicable Law**

The Contract shall be governed by and construed in accordance with the laws of the State of Mississippi, excluding its conflicts of laws provisions, and any litigation with respect

thereto shall be brought in the courts of the State. Advisor shall comply with applicable federal, state, and local laws and regulations.

**9. Compliance with Laws**

Advisor understands that DFA is an equal opportunity employer and, therefore, maintains a policy which prohibits unlawful discrimination based on race, color, creed, sex, age, national origin, physical handicap, disability, genetic information, or any other consideration made unlawful by federal, State, or local laws. All such discrimination is unlawful and Advisor agrees during the term of this Contract that Advisor will strictly adhere to this policy in its employment practices and provision of services. Advisor shall comply with, and all activities under this Contract shall be subject to, all applicable federal, State of Mississippi, and local laws and regulations, as now existing and as may be amended or modified.

**10. Force Majeure**

Each party shall be excused from performance for any period and to the extent that it is prevented from performing any obligation or service, in whole or in part, as a result of causes beyond the reasonable control and without the fault or negligence of such party and/or its subcontractors. Such acts shall include without limitation acts of God, strikes, lockouts, riots, acts of war, epidemics, governmental regulations superimposed after the fact, fire, earthquakes, floods, or other natural disasters ("force majeure events"). When such a cause arises, Advisor shall notify the State immediately in writing of the cause of its inability to perform, how it affects its performance, and the anticipated duration of the inability to perform. Delays in delivery or in meeting completion dates due to force majeure events shall automatically extend such dates for a period equal to the duration of the delay caused by such events, unless the State determines it to be in its best interest to terminate the agreement.

**11. Anti-Assignment/Subcontracting**

Advisor acknowledges that it was selected by the State to perform the services required hereunder based, in part, upon Advisor's special skills and expertise. Advisor shall not assign, subcontract, or otherwise transfer this agreement, in whole or in part, without the prior written consent of the State, which the State may, in its sole discretion, approve or deny without reason. Any attempted assignment or transfer of its obligations without such consent shall be null and void. No such approval by the State of any subcontract shall be deemed in any way to provide for the incurrence of any obligation of the State in addition to the total fixed price agreed upon in this agreement. Subcontracts shall be subject to the terms and conditions of this agreement and to any conditions of approval that the State may deem necessary. Subject to the foregoing, this agreement shall be binding upon the respective successors and assigns of the parties.

**12. Confidentiality**

Notwithstanding any provision to the contrary contained herein, it is recognized that DFA is a public agency of the State of Mississippi and is subject to the Mississippi Public Records Act. Mississippi Code Annotated §§ 25-61-1 *et seq.* If a public records request is

made for any information provided to DFA pursuant to the contract and designated by the Advisor in writing as trade secrets or other proprietary confidential information, DFA shall follow the provisions of Mississippi Code Annotated §§ 25-61-9 and 79-23-1 before disclosing such information. The DFA shall not be liable to the Advisor for disclosure of information required by court order or required by law.

**13. Disclosure of Confidential Information**

In the event that either party to this Contract receives notice that a third party requests divulgence of confidential or otherwise protected information and/or has served upon it a subpoena or other validly issued administrative or judicial process ordering divulgence of confidential or otherwise protected information that party shall promptly inform the other party and thereafter respond in conformity with such subpoena to the extent mandated by law. This section shall survive the termination or completion of this Contract. The parties agree that this section is subject to and superseded by Mississippi Code Annotated §§ 25-61-1 *et seq.*

Any liability resulting from the wrongful disclosure of confidential information on the part of Advisor or its subcontractor shall rest with Advisor. Disclosure of any confidential information by Advisor or its subcontractor without the express written approval of the Agency shall result in the immediate termination of this Contract.

**14. Transparency**

This Contract, including any accompanying exhibits, attachments, and appendices, is subject to the “Mississippi Public Records Act of 1983,” and its exceptions. See Mississippi Code Annotated §§ 25-61-1 *et seq.* and Mississippi Code Annotated § 79-23-1. In addition, this Contract is subject to the provisions of the Mississippi Accountability and Transparency Act of 2008. Mississippi Code Annotated §§ 27-104-151 *et seq.* Unless exempted from disclosure due to a court-issued protective order, a copy of this executed Contract is required to be posted to the Mississippi Department of Finance and Administration’s independent agency contract website for public access at <http://www.transparency.mississippi.gov>. Information identified by Advisor as trade secrets, or other proprietary information, including confidential Advisor information or any other information which is required confidential by state or federal law or outside the applicable freedom of information statutes, will be redacted.

**15. Contractor Personnel**

The DFA shall, throughout the life of the Contract, have the right of reasonable rejection and approval of staff or subcontractors assigned to the work by the Advisor. If the DFA reasonably rejects staff or subcontractors, the Advisor must provide replacement staff or subcontractors satisfactory to the DFA in a timely manner and at no additional cost to the DFA. The day-to-day supervision and control of the Advisor’s employees and subcontractors is the sole responsibility of the Advisor.

**16. Independent Advisor**

The Advisor shall, at all times, be regarded as and shall be legally considered an Independent Advisor and shall at no time act as an agent for the DFA. Nothing contained herein shall be deemed or construed by DFA, Advisor, or any third party as creating the relationship of principal and agent, master and servant, partners, joint ventures, employer and employee, or any similar such relationship between DFA and Advisor. Neither the method of computation of fees or other charges, nor any other provision contained herein, nor any acts of DFA or Advisor hereunder creates, or shall be deemed to create a relationship other than the independent relationship of DFA and Advisor. Advisor's personnel shall not be deemed in any way, directly or indirectly, expressly or by implication, to be employees of DFA. No act performed or representation made, whether oral or written, by the Advisor with respect to third parties shall be binding on the DFA. Neither the Advisor nor its employees shall, under any circumstances, be considered servants, agents, or employees of the DFA; and the DFA shall at no time be legally responsible for any negligence or other wrongdoing by the Advisor, its servants, agents, or employees. DFA shall not withhold from the Contract payments to Advisor any federal or state unemployment taxes, federal or state income taxes, Social Security tax, or any other amounts for benefits to Advisor. Further, DFA shall not provide to Advisor any insurance coverage or other benefits, including Workers' Compensation, normally provided by DFA for its employees.

**17. E-Verification**

If applicable, Advisor represents and warrants that it will ensure its compliance with the Mississippi Employment Protection Act of 2008, and will register and participate in the status verification system for all newly hired employees. Mississippi Code Annotated §§ 71-11-1 *et seq.* The term "employee" as used herein means any person that is hired to perform work within the State of Mississippi. As used herein, "status verification system" means the Illegal Immigration Reform and Immigration Responsibility Act of 1996 that is operated by the United States Department of Homeland Security, also known as the E-Verify Program, or any other successor electronic verification system replacing the E-Verify Program. Advisor agrees to maintain records of such compliance. Upon request of the State and after approval of the Social Security Administration or Department of Homeland Security when required, Advisor agrees to provide a copy of each such verification. Advisor further represents and warrants that any person assigned to perform services hereafter meets the employment eligibility requirements of all immigration laws. The breach of this Contract may subject Advisor to the following: (i) termination of this Contract for services and ineligibility for any state or public contract in Mississippi for up to three (3) years with notice of such cancellation/termination being made public; (ii) the loss of any license, permit, certification or other document granted to Advisor by an agency, department or governmental entity for the right to do business in Mississippi for up to one (1) year; or, (iii) both. In the event of such cancellations/termination, Advisor would also be liable for any additional costs incurred by the State due to Contract cancellation or loss of license or permit to do business in the State.

**18. Authority to Contract**

Advisor warrants: (a) that it is a validly organized business with valid authority to enter into this Contract; (b) that it is qualified to do business and in good standing in the State of Mississippi; (c) that entry into and performance under this Contract is not restricted or prohibited by any loan, security, financing, contractual, or other contract of any kind; and, (d) notwithstanding any other provision of this Contract to the contrary, that there are no existing legal proceedings or prospective legal proceedings, either voluntary or otherwise, which may adversely affect its ability to perform its obligations under this Contract.

**19. License Requirements**

The Advisor shall have, or obtain, any license/permits that are required prior to and during the performance of work under this Contract.

**20. Debarment and Suspension**

The Advisor certifies to the best of its knowledge and belief, that it: (i) Is not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transaction by any Federal department or agency or any political subdivision or agency of the State of Mississippi; (ii) Has not, within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against it for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction; (iii) Has not, within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against it for a violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property; (iv) Is not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State, or local) with commission of any of these offenses enumerated in paragraphs two (2) and three (3) of this certification; and, (v) Has not, within a three-year period preceding this proposal, had one or more public transactions (Federal, State, or local) terminated for cause or default.

**21. Modification or Renegotiation**

This Contract may be modified only by written Contract signed by the parties hereto. The parties agree to renegotiate the Contract if federal, state and/or the DFA revisions of any applicable laws or regulations make changes in this Contract necessary.

**22. Representation Regarding Contingent Fees**

Advisor represents that it has not retained a person to solicit or secure a state contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, except as disclosed in Advisor's bid or proposal.

**23. Representation Regarding Gratuities**

The Advisor represents that it has not violated, is not violating, and promises that it will not violate the prohibition against gratuities set forth in Miss. Code Ann. Section 25-4-105.

**24. Termination upon Bankruptcy**

This Contract may be terminated in whole or in part by DFA upon written notice to Advisor, if Advisor should become the subject of bankruptcy or receivership proceedings, whether voluntary or involuntary, or upon the execution by Advisor of an assignment for the benefit of its creditors. In the event of such termination, Advisor shall be entitled to recover just and equitable compensation for satisfactory work performed under this Contract, but in no case shall said compensation exceed the total Contract price.

**25. Termination for Convenience**

A. Termination. The Agency Head or designee may, when the interests of the State so require, terminate this Contract in whole or in part, for the convenience of the State. The Agency Head or designee shall give written notice of the termination to Advisor specifying the part of the Contract terminated and when termination becomes effective.

B. Advisor's Obligations. Advisor shall incur no further obligations in connection with the terminated work and on the date set in the notice of termination, Advisor will stop work to the extent specified. Advisor shall also terminate outstanding orders and subcontracts as they relate to the terminated work. Advisor shall settle the liabilities and claims arising out of the termination of subcontracts and orders connected with the terminated work. The Agency Head or designee may direct Advisor to assign Advisor's right, title, and interest under terminated orders or subcontracts to the State. Advisor must still complete the work not terminated by the notice of termination and may incur obligations as are necessary to do so.

**26. Termination for Default**

A. Default. If Advisor refuses or fails to perform any of the provisions of this Contract with such diligence as will ensure its completion within the time specified in this Contract or any extension thereof, or otherwise fails to timely satisfy the Contract provisions, or commits any other substantial breach of this Contract, the Agency Head or designee may notify Advisor in writing of the delay or nonperformance and if not cured in ten (10) days or any longer time specified in writing by the Agency Head or designee, such officer may terminate Advisor's right to proceed with the Contract or such part of the Contract as to which there has been delay or a failure to properly perform. In the event of termination in whole or in part, the Agency Head or designee may procure similar supplies or services in a manner and upon terms deemed appropriate by the Agency Head or designee. Advisor shall continue

performance of the Contract to the extent it is not terminated and shall be liable for excess costs incurred in procuring similar goods or services.

- B. Advisor's Duties. Notwithstanding termination of the Contract and subject to any directions from the Chief Procurement Officer, Advisor shall take timely, reasonable, and necessary action to protect and preserve property in the possession of Advisor in which the State has an interest.
- C. Compensation. Payment for completed services delivered and accepted by the State shall be at the Contract price. The State may withhold from amounts due Advisor such sums as the Agency Head or designee deems to be necessary to protect the State against loss because of outstanding liens or claims of former lien holders and to reimburse the State for the excess costs incurred in procuring similar goods and services.
- D. Excuse for Nonperformance or Delayed Performance. Except with respect to defaults of subcontractor, Advisor shall not be in default by reason of any failure in performance of this Contract in accordance with its terms (including any failure by Advisor to make progress in the prosecution of the work hereunder which endangers such performance) if Advisor has notified the Agency Head or designee within 15 days after the cause of the delay and the failure arises out of causes such as: acts of God; acts of the public enemy; acts of the State and any other governmental entity in its sovereign or contractual capacity; fires; floods; epidemics; quarantine restrictions; strikes or other labor disputes; freight embargoes; or unusually severe weather. If the failure to perform is caused by the failure of a subcontractor to perform or to make progress, and if such failure arises out of causes similar to those set forth above, Advisor shall not be deemed to be in default, unless the services to be furnished by the subcontractor were reasonably obtainable from other sources in sufficient time to permit Advisor to meet the Contract requirements. Upon request of Advisor, the Agency Head or designee shall ascertain the facts and extent of such failure, and, if such officer determines that any failure to perform was occasioned by any one or more of the excusable causes, and that, but for the excusable cause, Advisor's progress and performance would have met the terms of the Contract, the delivery schedule shall be revised accordingly, subject to the rights of the State under the clause entitled "Termination for Convenience. (As used in this paragraph of this clause, the term "subcontractor" means a subcontractor at any tier).
- E. Erroneous Termination for Default. If, after notice of termination of Advisor's right to proceed under the provisions of this clause, it is determined for any reason that the Contract was not in default under the provisions of this clause, or that the delay was excusable under the provisions of Paragraph (D) (Excuse for Nonperformance or Delayed Performance) of this clause, the rights and obligations of the parties shall, if the contract contains a clause providing for termination for convenience for the State, be the same as if the notice of termination had been issued pursuant to a termination for convenience.

- F. Additional Rights and Remedies. The rights and remedies provided in this clause are in addition to any other rights and remedies provided by law or under this Contract.

**27. Stop Work Order**

- A. Order to stop work. The Chief Procurement Officer, may by written order to the Advisor at any time, and without notice to any surety, require the Advisor to stop all or any part of the work called for by this Contract. This order shall be for a specified period not exceeding 90 days after the order is delivered to Advisor, unless the parties agree to any further period. Any such order shall be identified specifically as a stop work order issued pursuant to this clause. Upon receipt of such an order, Advisor shall forthwith comply with its terms and take all reasonable steps to minimize the occurrence of costs allocable to work covered by the order during the period of work stoppage. Before the stop work order expires, or within any further period to which the parties shall have agreed, the Chief Procurement Officer shall either (i) cancel the stop work order; or (ii) terminate the work covered by such order as provided in the "Termination for Default" clause or the "Termination for Convenience" clause of this Contract.
- B. Cancellation or Expiration of the Order. If a stop work order issued under this clause is canceled at any time during the period specified in the order, or if the period of the order or any extension thereof expires, Advisor shall have the right to resume work. An appropriate adjustment shall be made in the delivery schedule or Advisor price, or both, and the Contract shall be modified in writing accordingly, if: (i) the stop work order results in an increase in the time required for, or in the Advisor's cost properly allocable to, the performance of any part of this Contract; and, (ii) Advisor asserts a claim for such an adjustment within 30 days after the end of the period of work stoppage; provided that, if the Chief Procurement Officer decides that the facts justify such action, any such claim asserted may be received and acted upon at any time prior to final payment under this Contract.
- C. Termination of Stopped Work. If a stop work order is not canceled and the work covered by such order is terminated for default or convenience, the reasonable costs resulting from the stop work order shall be allowed by adjustment or otherwise.
- D. Adjustment of Price. Any adjustment in Contract price made pursuant to this clause shall be determined in accordance with the Price Adjustment clause of this Contract.

**28. Price Adjustment**

- A. Price Adjustment Methods. Any adjustment in contract price pursuant to a clause in this contract shall be made in one or more of the following ways:
- a. by agreement on a fixed price adjustment before commencement of the additional performance;
  - b. by unit prices specified in the contract;

- c. by the costs attributable to the event or situation covered by the clause, plus appropriate profit or fee, all as specified in the contract; or,
- d. by a price escalation clause.

B. Submission of Cost or Pricing Data. The Advisor shall provide cost or pricing data for any price adjustments.

**29. Oral Statements**

No oral statement of any person shall modify or otherwise affect the terms, conditions, or specifications stated in this Contract. All modifications to the Contract must be made in writing by the DFA and agreed to by the Advisor.

**30. Ownership of Documents and Work Papers**

The DFA shall own all documents, files, reports, work papers and working documentation, electronic or otherwise, created in connection with the Contract which is the subject of this Contract, except for the Advisor's internal administrative and quality assurance files and internal project correspondence. The Advisor shall deliver such documents and work papers to the DFA upon termination or completion of the Contract. The foregoing notwithstanding, the Advisor shall be entitled to retain a set of such work papers for its files. The Advisor shall be entitled to use such work papers only after receiving written permission from DFA and subject to any copyright protections.

**31. Trade Secrets, Commercial and Financial Information**

It is expressly understood that Mississippi law requires that the provisions of this Contract which contain the commodities purchased or the personal or professional services provided, the price to be paid, and the term of the Contract shall not be deemed to be a trade secret or confidential commercial or financial information and shall be available for examination, copying, or reproduction.

**32. Third-Party Action Notification**

The Advisor shall give the DFA prompt notice in writing of any action or suit filed, and prompt notice of any claim made against the Advisor by any entity that may result in litigation related in any way to this Contract.

**33. Indemnification**

To the fullest extent allowed by law, the Advisor shall indemnify, defend, save and hold harmless, protect, and exonerate the agency, its Commissioners, Board Members, officers, employees, agents, and representatives, and the State of Mississippi from and against all claims, demands, liabilities, suits, actions, damages, losses, and costs of every kind and nature whatsoever including, without limitation, court costs, investigative fees and expenses, and attorneys' fees, arising out of or caused by the Advisor and/or its partners, principals, agents, employees and/or subcontractors in the performance of or failure to perform this contract. In the State's sole discretion upon approval of the Mississippi Attorney General, Advisor may be allowed to control the defense of any such claim, suit, etc. In the event Advisor defends said claim, suit, etc., the Advisor shall use

legal counsel acceptable to the Office of the Mississippi Attorney General. Advisor shall be solely responsible for all costs and/or expenses associated with such defense, and the State shall be entitled to participate in said defense. Advisor shall not settle any claim, suit, etc. without the concurrence of the Office of the Mississippi Attorney General, which shall not be unreasonably withheld.

**34. Change in Scope of Work**

The DFA may order changes in the work consisting of additions, deletions, or other revisions within the general scope of the Contract. No claims may be made by Advisor that the scope of the project or of Advisor's services has been changed, requiring changes to the amount of compensation to the Advisor or other adjustments to the Contract, unless such changes or adjustments have been made by written amendment to the Contract signed by the DFA and the Advisor. If the Advisor believes that any particular work is not within the scope of the project, is a material change, or will otherwise require more compensation to the Advisor, the Advisor must immediately notify the DFA in writing of this belief. If the DFA believes that the particular work is within the scope of the Contract as written, the Advisor will be ordered to and shall continue with the work as changed and at the cost stated for the work within the Contract.

**35. Disputes**

Any dispute concerning the Contract which is not disposed of by agreement shall be decided by the Executive Director of DFA who shall reduce such decision to writing and mail or otherwise furnish a copy thereof to the Advisor. The decision of the Executive Director shall be final and conclusive. Nothing in this paragraph shall be construed to relieve the Advisor of full and diligent performance of the Contract.

**36. Attorney's Fees and Expenses**

Subject to other terms and conditions of this agreement, in the event Advisor defaults in any obligations under this agreement, Advisor shall pay to the State all costs and expenses (including, without limitation, investigative fees, court costs, and attorney's fees) incurred by the State in enforcing this agreement or otherwise reasonably related thereto. Advisor agrees that under no circumstances shall the customer be obligated to pay any attorney's fees or costs of legal action to Advisor.

**37. Failure to Enforce**

Failure by the DFA at any time to enforce the provisions of the Contract shall not be construed as a waiver of any such provisions. Such failure to enforce shall not affect the validity of the Contract or any part thereof or the right of the DFA to enforce any provision at any time in accordance with its terms.

**38. Record Retention and Access to Records**

Provided Advisor is given reasonable advance written notice and such inspection is made during normal business hours of Advisor, the State or any duly authorized representatives shall have unimpeded, prompt access to any of Advisor's books, documents, papers, and/or records which are maintained or produced as a result of the project for the purpose

of making audits, examinations, excerpts, and transcriptions. All records related to this agreement shall be retained by Advisor for three (3) years after final payment is made under this agreement and all pending matters are closed; however, if any audit, litigation or other action arising out of or related in any way to this project is commenced before the end of the three (3) year period, the records shall be retained for one (1) year after all issues arising out of the action are finally resolved or until the end of the three (3) year period, whichever is later.

**39. Right to Audit**

Advisor shall maintain such financial records and other records as may be prescribed by DFA or by applicable federal and state laws, rules, and regulations. Advisor shall retain these records for a period of three years after final payment, or until they are audited by DFA, whichever event occurs first. These records shall be made available for inspection during regular business hours and with reasonable advance notice during the term of the Contract and the subsequent three-year period for examination, transcription, and audit by the Mississippi State Auditor's Office, its designees, or other authorized bodies.

**40. Right to Inspect Facility**

The State may, at reasonable times, inspect the place of business of an Advisor or any subcontractor which is related to the performance of any contract awarded by the State.

**41. Severability**

If any part of this Contract is declared to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision, and to this end the provisions hereof are severable. In such event, the parties shall amend the Contract as necessary to reflect the original intent of the parties and to bring any invalid or unenforceable provisions in compliance with applicable law.

**42. Licenses and Registrations**

The Advisor must be registered with both the U.S. Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and provide documentation as proof to the Municipal Series Licensed Registrations and/or any applicable certificates.

**43. Insurance**

Advisor represents that it will maintain workers' compensation insurance which shall inure to the benefit of all Advisor's personnel provided hereunder, comprehensive general liability or professional liability insurance, with minimum limits of \$1,000,000.00 per occurrence and fidelity bond insurance with minimum limits of \$1,000,000.00. All general liability, professional liability and fidelity bond insurance will provide coverage to the DFA as an additional insured. The DFA reserves the right to request from carriers, certificates of insurance regarding the required coverage. Insurance carriers must be licensed or hold a Certificate of Authority from the Mississippi Department of Insurance.

**44. Notices**

All notices required or permitted to be given under this Contract must be in writing and personally delivered or sent by certified United States mail postage prepaid, return receipt requested, to the party to whom the notice should be given at the address set forth in this section. Notice shall be deemed given when actually received or when refused. The parties agree to promptly notify each other in writing of any change of address.

If to DFA:

Attention: Saranne Smith  
Department of Finance and Administration  
Office of Procurement and Contracts  
501 North West Street  
Suite 1301-A Woolfolk Building  
Jackson, Mississippi 39205-0267

If to the Advisor:

Attention: ☒

**45. Priority**

The Contract consists of this agreement including Exhibit A, **Pricing**, the Request for Proposals for ☒ Services dated  (hereinafter "RFP" and attached as Exhibit B), the response proposal by the Advisor dated  (hereinafter "Proposal" and attached as Exhibit C) and. Any ambiguities, conflicts or questions of interpretation of this Contract shall be resolved by first, reference to this agreement and, if still unresolved, by reference to the RFP and, if still unresolved, by reference to the Proposal. Omission of any term or obligation from this agreement or attached Exhibits A, B and C shall not be deemed an omission from this Contract if such term or obligation is provided for elsewhere in this Contract.

**In witness whereof, the parties hereto have caused this Contract to be executed by their duly authorized representatives as follows:**

Department of Finance and Administration

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT A**  
**PRICING**

**EXHIBIT B**

**THE ADVISOR'S RESPONSE TO THE DEPARTMENT OF FINANCE AND  
ADMINISTRATION'S REQUEST FOR PROPOSALS FOR FINANCIAL ADVISORY  
SERVICES DATED [Date]**

**EXHIBIT C**

**THE DEPARTMENT OF FINANCE AND ADMINISTRATION'S REQUEST FOR  
PROPOSALS FOR FINANCIAL ADVISORY SERVICES FOR THE MASTER LEASE  
PURCHASE PROGRAMS DATED JULY 16, 2021**