

**PRELIMINARY OFFICIAL STATEMENT**

**Dated: January 24, 2019**

**NEW ISSUE: BOOK-ENTRY-ONLY**

*Interest on the Taxable Bonds is not excludable from gross income for federal tax purposes under existing law. See “TAX MATTERS” herein.*

**\$58,645,000\***

**DENISON INDEPENDENT SCHOOL DISTRICT  
(Grayson County, Texas)  
Unlimited Tax Refunding Bonds, Taxable Series 2020**

**Dated Date: February 1, 2020**

**Due: August 1, as shown on page ii**

**(Interest Accrues and Accretes from Date of Delivery)**

The Denison Independent School District (the “District”) is issuing \$58,645,000\* Unlimited Tax Refunding Bonds, Taxable Series 2020 (the “Taxable Bonds”) in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207 (“Chapter 1207”), Texas Government Code, as amended, and an order authorizing the issuance of the Taxable Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on December 17, 2019, in which the District delegated pricing of the Taxable Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which contains the final terms of sale and completes the sale of the Taxable Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authorization and Purpose”).

The Taxable Bonds are being issued in part as Current Interest Bonds (“CIBs”) and in part as Premium Capital Appreciation Bonds (“CABs”). The Taxable Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of a continuing ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Taxable Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein).

Interest on the CIBs will accrue from the date they are initially delivered to the underwriters identified below (the “Underwriters”), and will be payable on February 1 and August 1 each year, commencing August 1, 2020, until maturity or prior redemption. The CIBs will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the CABs will accrete from the date they are initially delivered to the Underwriters, will compound semiannually on each February 1 and August 1 (each an “Accretion Date”), commencing August 1, 2020, and will be payable at maturity. The CABs will be issued as fully registered obligations in “Maturity Amount” denominations of \$5,000 or any integral multiple thereof within a maturity (see “THE BONDS – General Description”).

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York (“DTC”), but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Taxable Bonds will be payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as the initial Paying Agent/Registrar (the “Paying Agent/Registrar”) for the Taxable Bonds. **No physical delivery of the Taxable Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see “BOOK-ENTRY-ONLY SYSTEM” herein).

The Taxable Bonds maturing on and after August 1, 2030\* are subject to redemption prior to maturity at the option of the District, in whole or in part, on August 1, 2029\*, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption, as further described herein (see “THE BONDS – Redemption Provisions”).

Proceeds from the sale of the Taxable Bonds will be used to provide funds sufficient to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) and pay costs of issuance related to the Taxable Bonds (see “THE BONDS - Authorization and Purpose” and “SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED” herein). The refunding is being undertaken to lower the District’s debt service and will result in a present value debt service savings to the District.

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**CUSIP PREFIX: 248415**

**MATURITY SCHEDULE & 9 DIGIT CUSIP**

See Schedule on Page ii

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*The Taxable Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Kassahn & Ortiz, P.C., San Antonio, Texas. The Taxable Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 27, 2020 (the “Date of Delivery”).*

**RAYMOND JAMES**

**ESTRADA HINOJOSA**

**FHN FINANCIAL CAPITAL  
MARKETS**

**PIPER SANDLER & CO.**

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\*Preliminary, subject to change.

## MATURITY SCHEDULE

\$58,645,000\*

UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

\$58,100,000\* Current Interest Bonds

<u>Maturity Date (8/1)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield <sup>(B)</sup></u>	<u>CUSIP Suffix<sup>(A)</sup></u>	<u>Maturity Date (8/1)</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield <sup>(B)</sup></u>	<u>CUSIP Suffix<sup>(A)</sup></u>
2020 ***	\$430,000 ***	%	%		2033	\$4,040,000	%	%	
2026	2,200,000				2034	4,175,000			
2027	3,040,000				2035	4,320,000			
2028	3,160,000				2036	4,915,000			
2029	265,000				2037	5,095,000			
2030	275,000				2038	5,180,000			
2031	1,315,000				2039	5,375,000			
2032	3,905,000				2040	5,575,000			
					2041	4,865,000			

(Interest Accrues from Date of Delivery)

\$545,000\* Premium Capital Appreciation Bonds

<u>Maturity Date (8/1)</u>	<u>Original Principal Amount*</u>	<u>Yield To Maturity</u>	<u>Maturity Amount*</u>	<u>Initial Offering Price Per \$5,000 In Maturity Amount*</u>	<u>CUSIP Suffix<sup>(A)</sup></u>
2023	\$290,000	%	\$2,645,000		
2024	155,000		2,740,000		
2025	90,000		2,835,000		
2026	10,000		745,000		

(Interest to Accrete from Date of Delivery)

**Optional Redemption.** The CIBS maturing on or after August 1, 2030\* are subject to redemption prior to maturity at the option of the District, in whole or in part, on August 1, 2029\*, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption as further described herein (see "THE BONDS - Redemption Provisions").

\*Preliminary, subject to change.

<sup>(A)</sup> CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(B)</sup> The initial reoffering yield represents the initial offering yield to the public, which will be determined by the Underwriters. Portions of the Taxable Bonds may be sold by the Underwriters at prices other than those shown above.

**Concurrent Offerings.**...The Taxable Bonds are being offered by the District concurrently with the District's Unlimited Tax School Building Bonds, Series 2020 (the "Tax-Exempt Bonds") but pursuant to a separate offering document. The Taxable Bonds and Tax-Exempt Bonds are separate and distinct securities offerings being issued and sold independently. Such separate offering documents should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, the rights of the holders and other features. Initial delivery of the Tax-Exempt Bonds through the facilities of DTC is expected to occur on or about February 27, 2020.

**DENISON INDEPENDENT SCHOOL DISTRICT**

**ELECTED OFFICIALS**

<b><u>Name</u></b>	<b><u>Term Expires</u></b>	<b><u>Occupation</u></b>
David Hawley, President	2022	Justice of the Peace
Ken Altnether, Vice President	2021	Engineer
Linda Fleming, Secretary	2022	Community Volunteer/Retired – Banking Industry
Bruce Hysmith, Member	2022	Retired – Fisheries Biologist
Bob Rhoden, Member	2021	Executive Director
Becky Russell, Member	2020	Community Volunteer/Retired - Educator
Randy Sedlacek, Member	2020	Business Owner

**CERTAIN DISTRICT OFFICIALS**

<b><u>Name</u></b>	<b><u>Position</u></b>
Dr. Henry Scott	Superintendent of Schools
Randy Reid	Assistant Superintendent for Business Services
Cortney Hunkapiller	Director of Business Services

**CONSULTANTS AND ADVISORS**

McCall, Parkhurst & Horton L.L.P. Dallas, Texas	Bond Counsel
RBC Capital Markets, LLC Dallas, Texas	Financial Advisor
Kirk & Richardson, P.C. Fort Worth, Texas	Independent Auditor

**FOR ADDITIONAL INFORMATION PLEASE CONTACT**

Mr. Randy Reid  
Assistant Superintendent  
Denison Independent School District  
1201 South Rusk Avenue  
Denison, Texas 75020  
Phone: (903) 462-7036

Matthew Boles  
Managing Director  
RBC Capital Markets, LLC  
200 Crescent Court, Suite 1500  
Dallas, Texas 75201  
Phone: (214) 989-1660

## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), this document constitutes an official statement of the District with respect to the Taxable Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

None of the District, the Financial Advisor or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company, New York, New York (“DTC”) or its Book-Entry-Only system or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, as such information has been provided by the DTC and by the TEA, respectively.

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

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

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

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

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The Issuer</b>	Denison Independent School District (the “District”) is a political subdivision located in Grayson County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
<b>The Taxable Bonds</b>	The Taxable Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see “THE BONDS – General Description”).
<b>Authority for Issuance</b>	The District’s Unlimited Tax Refunding Bonds, Taxable Series 2020 (the “Taxable Bonds”) are being issued in accordance with the Constitution and general laws of the State of Texas, particularly Chapter 1207 (“Chapter 1207”), Texas Government Code, as amended, and an order authorizing the issuance of the Taxable Bonds (the “Bond Order”) adopted by the Board of the District on December 17, 2019, in which the District delegated pricing of the Taxable Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which contains the final terms of sale and completes the sale of the Taxable Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authorization and Purpose”).
<b>Use of Proceeds</b>	Proceeds from the sale of the Taxable Bonds will be used to provide funds sufficient to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) and pay costs of issuance related to the Taxable Bonds (see “THE BONDS - Authorization and Purpose” and “SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED” herein). The refunding is being undertaken to lower the District’s debt service and will result in a present value debt services savings to the District.
<b>Payment of Interest</b>	Interest on the CIBS will accrue from the date of their initial delivery to the Underwriters and will be payable semiannually on February 1 and August 1 each year, commencing August 1, 2020, until maturity or prior redemption (see “THE BONDS – General Description”). Interest on the CABs will accrete from the date they are initially delivered to the Underwriters, will compound semiannually on each February 1 and August 1 (each an “Accretion Date”), commencing August 1, 2020, and will be payable at maturity (see “THE BONDS – General Description”).
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York (“DTC”) (see “BOOK-ENTRY – ONLY SYSTEM” herein).
<b>Security</b>	The Taxable Bonds will constitute direct obligations of the District, payable as to principal, Maturity Amount and interest from a continuing ad valorem tax levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Additionally, the payment of the Taxable Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “THE BONDS - Security” herein). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.
<b>Redemption Provisions*</b>	The Taxable Bonds maturing on and after August 1, 2030* are subject to redemption prior to maturity at the option of the District, in whole or in part, on August 1, 2029* or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption, as further described herein (see “THE BONDS – Redemption Provisions”).

<b>Ratings</b>	<p>S&amp;P Global Ratings (“S&amp;P”) has assigned a municipal bond rating of “AAA” to the Taxable Bonds based upon the Permanent School Fund Guarantee. S&amp;P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” (see “RATINGS” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).</p> <p>The District’s underlying rating for the Taxable Bonds (without consideration of the Permanent School Fund Guarantee) is “A+” by S&amp;P (see “RATINGS”).</p>
<b>Tax Status</b>	<p>Interest on the Taxable Bonds is not excludable from gross income for federal tax purposes under existing law. See “TAX MATTERS” herein.</p>
<b>Book-Entry-Only System</b>	<p>The definitive Taxable Bonds will be initially registered and delivered only to Cede &amp; Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Taxable Bonds may be acquired in denominations of \$5,000 of principal amount or Maturity Amount, as the case may be, or integral multiples thereof. No physical delivery of the Taxable Bonds will be made to the beneficial owners thereof. The principal, maturity amounts and interest amounts of the Taxable Bonds will be payable by the Paying Agent/Registrar to Cede &amp; Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Taxable Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).</p>
<b>Continuing Disclosure of Information</b>	<p>Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”). Such information will be available to the public without charge from the MSRB at <a href="http://www.emma.msrb.org">www.emma.msrb.org</a> (see “CONTINUING DISCLOSURE OF INFORMATION”). Also see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.</p>
<b>Payment Record</b>	<p>The District has never defaulted on the payment of its bonded indebtedness.</p>
<b>Legal Opinion</b>	<p>McCall, Parkhurst &amp; Horton L.L.P., Bond Counsel, Dallas, Texas.</p>
<b>Concurrent Offerings</b>	<p>The Taxable Bonds are being offered by the District concurrently with the District’s Unlimited Tax School Building Bonds, Series 2020 (the “Tax-Exempt Bonds”) but pursuant to a separate offering document. The Taxable Bonds and Tax-Exempt Bonds are separate and distinct securities offerings being issued and sold independently. Such separate offering documents should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, the rights of the holders and other features. Initial delivery of the Tax-Exempt Bonds through the facilities of DTC is expected to occur on or about February 27, 2020.</p>

## PRELIMINARY OFFICIAL STATEMENT

\$58,645,000\*

### DENISON INDEPENDENT SCHOOL DISTRICT (Grayson County, Texas) Unlimited Tax Refunding Bonds, Taxable Series 2020

#### INTRODUCTORY STATEMENT

This Official Statement, including Schedules I and II and Appendices A and B, has been prepared by the Denison Independent School District located in Grayson County, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Taxable Series 2020 (the “Taxable Bonds”) identified on the cover page hereof.

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

This Official Statement contains descriptions of the Taxable Bonds and the Order (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained during the offering period, from the District’s Financial Advisor, RBC Capital Markets, LLC.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement and the Escrow Agreement (defined below) will be submitted to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency and the District, respectively, to provide certain information on a continuing basis.

#### THE BONDS

##### Authorization and Purpose

The Taxable Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the “State” or “Texas”), particularly Chapter 1207 (“Chapter 1207”), Texas Government Code, as amended, and an order authorizing the issuance of the Taxable Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on December 17, 2019, in which the District delegated pricing of the Taxable Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which contains the final terms of sale and completes the sale of the Taxable Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise defined herein.

Proceeds from the sale of the Taxable Bonds will be used to provide funds sufficient to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) and pay costs of issuance related to the Taxable Bonds (see “SCHEDULE I – SCHEDULE OF BONDS TO BE REFUNDED” herein). The refunding is being undertaken to lower the District’s debt service and will result in a present value debt service savings to the District.

##### Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the respective interest payment dates and redemption dates (shown in Schedule I) of such Refunded Bonds from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the “Escrow Agent”). The Order provides that a cash contribution by the District, if necessary, plus funds from the proceeds of the sale of the Taxable Bonds received from the initial purchasers of the Taxable Bonds listed on the cover page hereof (the “Underwriters”), will be deposited with the Escrow Agent in an amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and/or (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase

\* Preliminary, subject to change



by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Robert Thomas CPA, LLC, a firm of independent certified public accountants, will verify at the time of delivery of the Taxable Bonds to the Underwriters that the Escrowed Securities will mature and pay interest in such amounts which, together with the uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay debt service on the Taxable Bonds (see “VERIFICATION OF MATHEMATICAL COMPUTATIONS”).

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with Texas law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the verification report of Robert Thomas CPA, LLC, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due on the Escrowed Securities.

Defeasance of the Refunded Bonds will cancel the guarantee of the Texas Permanent School Fund with respect thereto.

### **General Description**

The Taxable Bonds will be dated February 1, 2020. The Taxable Bonds will be issued (i) in part as Current Interest Bonds (the “CIBs” and (ii) in part as Premium Capital Appreciation Bonds (the “CABs”). Interest accruing on the CIBs and the accreted/compounded interest on the CABs will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and transfer agent (the “Paying Agent/Registrar”) for the Taxable Bonds is initially The Bank of New York Mellon Trust Company National Association, Dallas, Texas.

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

Interest on the CIBs shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the “Record Date” (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the CIBs and Maturity Amount of the CABs will be payable only upon presentation of such Taxable Bonds at the designated office of the Paying Agent/Registrar upon maturity or, with respect to the CIBs, prior redemption; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Taxable Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein.

*CIBs.* The CIBs are to mature on the dates and in the principal amounts shown on page ii hereof. The CIBs will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the CIBs will accrue from the date they are initially delivered to the Underwriters at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on August 1, 2020 and semiannually thereafter on February 1 and August 1 in each year until maturity or prior redemption.

*CABs.* The CABs will mature on the dates and in the Maturity Amounts set forth on page ii hereof. The CABs will each be issued as fully registered obligations in Maturity Amounts of \$5,000 or any integral multiple thereof within a maturity. The “Maturity Amount” for the CABs represents the total amount of principal, plus the initial premium, if any, paid therefor, and the accreted/compounded interest thereon at maturity. The CABs will be initially priced by discounting the Maturity Amount to the issue price paid therefor by the Underwriters (being the original principal amount shown on page ii and any premium paid therefor) and using the approximate yield shown on page ii of this Official Statement as the discount rate and providing for such Maturity Amount to be discounted semiannually on February 1 and August 1 in each year, commencing August 1, 2020, and thereafter from the date of their initial delivery to the Underwriters. The Maturity Amount of the CABs will be payable at maturity. A table of accreted values of the CABs per \$5,000 of Maturity Amount based on such initial offering prices and the approximate yields therefor are presented in Schedule II attached hereto, and such table of accreted values is provided for informational purposes only and may not reflect the prices for the CABs in the secondary market.

### **Yield on Premium Capital Appreciation Bonds**

The approximate yield of the CABs as set forth on page ii of this Official Statement is based upon the initial offering price therefor set forth on page ii this Official Statement. Such offering price includes the principal amount of such CABs, plus premium, if any, equal to the

amount by which such offering price exceeds the principal amount of such CABs. The yield on the CABs to a particular purchaser may differ depending upon the price paid by the purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

### **Redemption Provisions\***

*Optional Redemption.* The CIBs maturing on and after August 1, 2030\*, are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2029\*, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the CIBs within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the CIBs or portions thereof, to be redeemed.

*Mandatory Sinking Fund Redemption.* If two or more serial bonds of consecutive maturities are combined into one or more “Term Bonds” by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order and as further set forth in the final Official Statement.

### **Notice of Redemption**

At least 30 days prior to the date fixed for any such redemption, the District shall cause a written notice of such redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner of each Bond to be redeemed at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. With respect to any optional redemption of the Taxable Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and interest on the Taxable Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Taxable Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Taxable Bonds have not been redeemed.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING WHETHER ONE OR MORE OF THE REGISTERED OWNERS OF SUCH TAXABLE BONDS FAILED TO RECEIVE SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH TAXABLE BONDS, THE TAXABLE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH TAXABLE BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE IRRESPECTIVE OF WHETHER SUCH TAXABLE BONDS ARE SURRENDERED FOR PAYMENT.

### **DTC Notices**

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

### **Security**

The Taxable Bonds are direct obligations of the District and are payable as to principal, Maturity Amount and interest from an ad valorem tax levied annually, without limit as to rate or amount, on all taxable property within the District as provided in the Order (see “TAX RATE LIMITATIONS”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, the payment of the Taxable Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”).

\* Preliminary, subject to change

## **Permanent School Fund Guarantee**

In connection with the sale of the Taxable Bonds, the District has submitted an application to the Texas Education Agency, and has received conditional approval from the Commissioner of Education, for the guarantee of the Taxable Bonds under the Permanent School Fund Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment when due of principal of, and interest on, the Taxable Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with the terms of the Guarantee Program for School District Bonds. In the event of a payment default by the District, registered owners of the Taxable Bonds will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Taxable Bonds, the payment of such defeased Taxable Bonds will cease to be guaranteed by the Permanent School Fund Guarantee (see “THE BONDS – Defeasance of Bonds”).

## **Legality**

The Taxable Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see “LEGAL MATTERS” and “APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL” herein).

## **Payment Record**

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

## **Defeasance of Bonds**

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

Upon such deposit as described above, such Taxable Bonds shall no longer be regarded to be outstanding obligations of the District for purposes of applying any limitation on indebtedness or for purposes of taxation. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Taxable Bonds, to call for redemption, at an earlier date, those Taxable Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Taxable Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such Taxable Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon defeasance, such defeased Taxable Bonds will no longer be guaranteed by the Texas Permanent School Fund.

## Amendments to the Order

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not materially inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of a majority of the principal amount and Maturity Amount of the Taxable Bonds then outstanding shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in aggregate principal amount of the then outstanding Taxable Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Taxable Bonds; (ii) reducing the rate of interest borne by any of the outstanding Taxable Bonds; (iii) reducing the amount of the principal of or redemption premium, if any, payable on any outstanding Taxable Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Taxable Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Taxable Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

## Sources and Uses of Funds

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

<b>Sources:</b>		
	Principal Amount	\$
	[Net] Original Issue Premium	
	Issuer Contribution	
	<b>Total Sources of Funds</b>	<b><u>\$</u></b>
<b>Uses:</b>		
	Deposit to Escrow Fund	\$
	Costs of Issuance	
	Underwriters' Discount	
	<b>Total Uses of Funds</b>	<b><u>\$</u></b>

## REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Taxable Bonds. If the District defaults in the payment of the principal or interest on the Taxable Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Taxable Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Taxable Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, Chapter 1371, Texas Government Code as amended (Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the Taxable Bonds, but in connection with the issuance of the Taxable Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. As a result, bondholders may not be able to bring such a suit against the District for breach of the Taxable Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Taxable Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as

a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Taxable Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity and by general principles of equity which permit the exercise of judicial discretion.

See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Taxable Bonds by the Permanent School Fund in the event the District fails to make a payment on the Taxable Bonds when due.

### **BOOK-ENTRY-ONLY SYSTEM**

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

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

The DTC will act as securities depository for the Taxable Bonds. The Taxable Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security will be issued for each maturity of the CIBS and the CABs, as set forth on page ii hereof, each in the aggregate principal amount or Maturity Amount, as applicable, of such maturity and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Taxable Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Taxable Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Taxable Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Taxable Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Taxable Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Taxable Bond certificates are required to be printed and delivered (see "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration").

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

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

## **Future Registration**

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

## **Record Date for Interest Payment**

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

## **Limitation on Transfer of Bonds**

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

## **Replacement Bonds**

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

## **AD VALOREM TAX PROCEDURES**

### **Property Tax Code and County-Wide Appraisal District**

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

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax status in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes;

property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind powered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces, except as provided in the next succeeding paragraph; \$25,000 (effective January 1, 2015) in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older and persons who are disabled above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over and of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General"). The foregoing school property tax limitation applies to the 2007 and subsequent tax years.

If an individual dies while on active duty as a member of the armed services of the U.S., the surviving spouse and surviving children (under 18 years of age) are entitled to an exemption from taxation of \$5,000 of the assessed value of certain designated property owned by the spouse or children. A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2016, the surviving spouse of a deceased veteran who had received a disability rating of 100% when the disabled veteran died, or the surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property. See "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" for a schedule of exemptions allowed by the District.

A city or county may create a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraised value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for



school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate")

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal or the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

### **Residential Homestead Exemption**

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veterans by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Also, the surviving spouse of a

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

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

Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) may not reduce the amount of or repeal such exemption.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

### **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Generally, by the later of September 30 or 60 days after the date that the certified appraisal roll is received by the District, the rate of taxation is set by the District based upon the valuation of property within the District as of the preceding January 1 (see "AD VALOREM TAX PROCEDURES – Public Hearing and Voter-Approval Tax Rate"). Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs an initial penalty of from six percent (6%) to twelve percent (12%) of the amount of the tax, depending upon the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1 an additional penalty of up to twenty percent (20%) may, under certain circumstances, be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes on real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

## Public Hearing and Voter Approval Tax Rate

*During the 2019 legislative session, the 86<sup>th</sup> State Legislature made numerous changes to the requirements for the levy and collection of ad valorem taxes and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB3”) and Senate Bill 2 (“SB2”). In some instances, the provisions of HB3 and SB2 require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB3 and SB2, and (b) monitoring the on-going guidance provided by TEA. The information contained under the captions and subcaptions “AD VALOREM TAX PROCEDURES – Public Hearing and Voter-Approval Tax Rate”, “AD VALOREM TAX PROCEDURES – District and Taxpayer Remedies”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”, and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB3 and SB2 based on information available to the District as of the date of this Official Statement. Reference is made to HB3, SB2 and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.*

A school district’s tax rate consists of two levies: (1) the levy of a maintenance and operations (“M&O”) rate for the funding of current expenses, and (2) the levy of an interest and sinking (“I&S”) rate to pay debt service on school district bonds. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate, is the “Voter-Approval Tax Rate.” Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district’s Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, state law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of an efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following a year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district’s Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the State Compression Percentage, multiplied by \$1.00; (ii) the greater of (a) the school district’s M&O tax rate for the 2018 tax year, less the sum of (1) \$1.00, and (2) any amount by which the school district is required to reduce its enrichment tax rate for the 2019 tax year, or (b) \$0.04; and (iii) the school district’s current debt rate. For the 2020 tax year, the Voter-Approval Tax Rate for a school district is the sum of (i) the school district’s MCR; (ii) the greater of (a) the school district’s Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district’s current debt rate. However, for the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote for that tax year a M&O tax rate at least equal to the sum of the school district’s MCR plus \$0.05, then \$0.04 is substituted for \$0.05 in the calculation for such school district’s Voter-Approval Tax Rate for the 2020 tax year. For the 2019 tax year, a school district’s M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the product of the State Compression Percentage multiplied by \$1.00. For the 2020 tax year, and subsequent years, a school district’s M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district’s MCR. For the 2019 tax year, school districts with a Voter-Approval Tax Rate equal to or greater than \$0.97 (excluding the school district’s current I&S tax rate) may not adopt an M&O tax rate for the 2019 tax year that exceeds the school district’s Voter-Approval Tax Rate. For such school districts, the maximum tax rate for the 2019 tax year that each such school district can levy will be set by TEA. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate.

For the 2019 tax year, Section 26.05 of the Texas Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the “effective maintenance and operations tax rate” calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. The “effective maintenance and operations tax rate” for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the school district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the school district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Beginning with the 2020 tax year, Section 26.05 of the Texas Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district’s failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the “no-new-revenue tax rate” calculated for that tax year or the tax rate adopted by the District for the preceding tax year. A school district’s failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30th or the sixtieth (60th) day after receipt of the certified appraisal roll. “No-new-revenue tax rate” means the rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

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

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

Beginning with the 2020 tax year (fiscal year ending in 2021), the District must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the District is located its Voter-Approval Tax Rate in accordance with forms prescribed by the State Comptroller.

**District and Taxpayer Remedies**

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

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

**THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT**

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

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

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

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

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

The District has not granted a local option, additional exemption for persons 65 years of age or older or the disabled above the amount of the State mandated exemption.

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

The District does grant a freeport property exemption.

The District does tax "goods-in transit."

The District is not currently a participant in any tax increment reinvestment zones.

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

The District has not entered into any appraised value limitation agreements pursuant to the Texas Economic Development Act, Chapter 313, Texas Tax Code.

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

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

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

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest <sup>(B)</sup></u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32 <sup>(A)</sup>	6	38

<sup>(A)</sup> Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.

<sup>(B)</sup> Interest continues to accrue after July 1 at the rate of 1% per month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency.

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Litigation Relating to the Texas Public School Finance System

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

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

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

### Possible Effects of Litigation and Changes in Law on District Bonds

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

is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

### Overview

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: an M&O tax to pay current expenses and an I&S tax to pay debt service on bonds. School districts may not levy surplus M&O taxes for the purpose of paying debt service on bonds. Under former law, a school district was authorized to seek voter approval to levy their M&O tax at a constitutionally-mandated and voter-approved rate, generally up to \$1.50 per \$100 of taxable in the school district, although in recent years, including in the 86th State Legislature, legislation has been enacted that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (unless a school district has never elected to levy an unlimited I&S tax rate to secure debt service payments on bonds and elects to cap its maximum I&S tax rate securing the payment of debt service on bonds). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation, although legislation has been enacted in recent years, including during the 86th State Legislature, that uses various funding formulas designed to generally equalize local funding generated by a school district’s M&O tax rate.

Prior to the 2019 Legislative Session, a school district’s maximum M&O tax rate for a given tax year was determined by multiplying that school district’s 2005 M&O tax rate levy by an amount equal to the “State Compression Percentage”, a value set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education. The State Compression Percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value since most districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value. School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to \$1.17 per \$100 of taxable value (for most school districts, between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

### Local Funding for School Districts

Legislation was enacted in the 86th State Legislature that made several significant changes to the funding methodology for school districts (the “2019 Legislation”). The 2019 Legislation orders a school district’s M&O tax rate into two distinct parts: the Tier One Tax Rate, which is the local tax rate required for a school district to receive its basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the Enrichment Tax Rate, being an additional amount of local M&O funding in excess of its Tier One funding. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding For School Districts” is generally intended to describe funding provisions for all school districts; however, there are distinctions in funding that pertain to school districts that generate local M&O revenues in excess of such school districts’ respective funding entitlements, as further discussed under the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement,” below.

*State Compression Percentage.* As amended by the 86th State Legislature in 2019, the State Compression Percentage for the State fiscal year ending in 2020 is a percentage of the rate of \$1.00 per \$100 at which a school district must levy an M&O tax to receive the full amount of the tier one allotment to which a school district is entitled. For the State fiscal year ending in 2020, the State Compression Percentage is set at 93% per \$100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the rate of \$1.00 per \$100 valuation of taxable property that is used to determine a school district’s Maximum Compressed Tax Rate (the “MCR”), and is inversely proportional to the change in total property value in the State. For any year, the maximum State Compression Percentage is ninety-three percent (93%).

*Maximum Compressed Tax Rate.* As added by the 86th State Legislature, beginning with the State fiscal year ending in 2021 (the 2020 tax year) the MCR is the tax rate for a tax year per \$100 of valuation of taxable property at which a school district must levy an M&O tax to receive the full amount of the Tier One allotment to which the school district is entitled. The MCR is calculated as the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the State Compression Percentage for the current year. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than ninety percent (90%) of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than ten percent (10%). These provisions are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce school districts' Tier One Tax Rates as property values increase.

*Tier One Tax Rate.* For the 2019-2020 school year, the Tier One Tax Rate is defined as the State Compression Percentage multiplied by (i) \$1.00, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than \$1.00 per \$100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at ninety-three cents (\$0.93). For school districts that levied an M&O tax rate at or above \$1.00, the Tier One Tax Rate for the State fiscal year ending in 2020 is \$0.93. For school districts that levied an M&O tax rate below \$1.00, the Tier One Tax Rate for the State fiscal year ending in 2020 is the product of the school district's M&O tax rate below \$1.00 multiplied by ninety-three percent (93%). Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's tax rate that is the number of cents levied by the school district for M&O that does not exceed the school district's MCR.

*Enrichment Tax Rate.* The Enrichment Tax Rate is defined as (i) any cents of additional M&O tax effort, not to exceed eight cents (\$0.08) over the Tier One Tax Rate ("Golden Pennies"), and (ii) any cents of additional M&O tax effort that exceeds the sum of Tier One Tax Rate plus Golden Pennies ("Copper Pennies"). The maximum Enrichment Tax Rate is limited to seventeen cents (\$0.17), consisting of eight (8) Golden Pennies and nine (9) Copper Pennies.

School districts are entitled to a guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated) for each Golden Penny or Copper Penny levied in addition to the Tier One Tax Rate. However, for a school year in which a school district's guaranteed yield for its Copper Pennies per student in WADA exceeds the guaranteed yield per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per cent per student in WADA in school year 2019-2020 to \$49.28 per cent per student in WADA requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts which levied the maximum M&O tax rate of \$1.17 in school year 2019-2020 must reduce their total M&O tax rate to approximately \$1.0684 per \$100 taxable value.

### **State Funding for School Districts**

State funding for school districts is provided through the Foundation School Program, which provides each school district with a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, referred to herein as "ADA"). The Basic Allotment per student is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold (for the 2019-2020 school year, \$0.93 per \$100 of taxable value, and equal to a school district's MCR for the 2020-2021 and subsequent school years). This Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One funding under the Foundation School Program.

Tier One funding may then be "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service, and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS"), Tier Two funding may not be used for the payment of debt service or capital outlay.

The Foundation School Program also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2019, the 86th State Legislature appropriated funds for the 2020-2021 State fiscal biennium for the EDA, IFA, and NIFA.

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

allotments are generally required to be funded each year by the State Legislature. Since future-year IFA awards were not funded by the State Legislature for the 2020-21 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2020-21 State fiscal biennium on new bonds issued by school districts in the 2020-21 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

As described above, Tier One funding is based on an allotment per student known as the “Basic Allotment”. For the State fiscal year ending in 2020, the Basic Allotment for school districts with a Tier One Tax Rate equal to the product of the State Compression Percentage multiplied by \$1.00, is \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the product of the State Compression Percentage multiplied by \$1.00. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district’s MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for each student in ADA residing two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a staffing allotment to retain employees in rural school districts. The sum of a school district’s Basic Allotment and all statutory adjustments, divided by \$6,160, is that school district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

As described above, Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district’s Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) 1.6% of the Basic Allotment (or a greater amount as may be provided by appropriation). For the 2019-2020 State fiscal biennium, school districts are guaranteed a yield of at least \$98.56 per WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per cent per WADA of 0.8% of a school district’s Basic Allotment (or a greater amount as may be provided by appropriation). For the 2019-2020 State fiscal biennium, school districts are guaranteed a yield of at least \$49.28 per WADA for each Copper Penny levied.

As discussed above, the Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “IFA Guaranteed Yield”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 86th State Legislature did not appropriate any funds for new IFA awards for the 2020-2021 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the “EDA Yield”) is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35.

The portion of a school district’s local debt service rate that qualifies for EDA assistance is limited to the first twenty-nine cents (\$0.29) of debt service tax (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district’s bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. The 86th State Legislature appropriated funds in the amount of \$100,000,000 for each of the 2019-20 and 2020-21 State fiscal years for NIFA allotments.



## Local Revenue Level in Excess of Entitlement

In 2019, the 86th State Legislature adopted substantial changes to the local revenue reduction provisions (formerly the wealth transfer provisions) of the Texas Education Code. Whereas the recapture process had previously been based on the proportion of a school district's assessed property value per student in WADA, recapture is now measured by the "local revenue level" (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately \$3.6 billion during the 2020-2021 State fiscal biennium.

Some school districts in Texas have sufficient property wealth per student in WADA to generate their statutory level of funding through collections of local property taxes alone. Local revenues generated on a school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements, are subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, local revenues generated on a school district's Golden Pennies – in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies – in excess of the school district's respective funding entitlement, are subject to the local revenue reduction provisions of Chapter 49. For most school districts subject to Chapter 49, local revenue reduction entails a process known as "recapture", which is paying the portion of the school district's respective local M&O tax revenues collected in excess of the respective guaranteed yields to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not subject to Chapter 49 by exercising certain options, described in the subcaption "Wealth Transfer Options". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

Furthermore, "property-poor" school districts which received additional State funds under the State funding regime prior to legislation enacted in the 86th State Legislature are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

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

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

## **The School Finance System as Applied to the District**

The District's wealth per student for the 2018-19 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a District with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

The District is unable to predict the future actions of courts and the Texas Legislature with respect to funding of the Finance System. Changes made to the Finance System as a result of litigation or otherwise could materially affect the financial condition of the District. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Litigation Related to the Texas Public School Finance System."

## **TAX RATE LIMITATIONS**

### **M&O Tax Rate Limitation**

The District is authorized to levy an M&O tax rate pursuant to approval of the voters of the District at an election held on April 24, 1956 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

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

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

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

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

### **I&S Tax Rate Limitation**

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

Section 45.0031, as amended, Texas Education Code ("Section 45.0031"), requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax rate until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser,

anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues that are subject to the tax rate test. The Taxable Bonds are issued for refunding purposes and, therefore, the Taxable Bonds are not subject to the threshold tax rate test.

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of the District, the Financial Advisor or the Underwriters.*

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

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

### History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the “Legislature”) in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). (See “2019 Texas Legislative Session” for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the “GLO”) managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment

charter schools that are designated as “charter districts” by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the “IRS”) which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See “The Charter District Bond Guarantee Program.”

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, preliminary, unaudited distributions to the ASF amounted to an estimated \$246 per student and the total amount distributed to the ASF was \$1,235.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2018, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

## **2019 Texas Legislative Session**

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the “86th Session”), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a “permanent school fund liquid account” in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with

the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See “2011 and 2019 Constitutional Amendments.”

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

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, should State voters approve the proposed constitutional amendment described above on November 5, 2019.

### **The Total Return Constitutional Amendment**

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2019, the Fund's financial assets portfolio was invested as follows: 34.84% in public market equity investments; 13.32% in fixed income investments; 10.55% in absolute return assets; 11.53% in private equity assets; 8.68% in real estate assets; 7.44% in risk parity assets; 6.14% in real return assets; 7.01% in emerging market debt; and 0.49% in unallocated cash. August 31, 2019 data is unaudited, which is subject to adjustment.

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

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

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

## **Management and Administration of the Fund**

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

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

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

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

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

## **Capacity Limits for the Guarantee Program**

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

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

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

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

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

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

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

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



## **The School District Bond Guarantee Program**

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

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

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

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

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

## **Charter District Bond Guarantee Program**

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

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

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of December 4, 2019, there were 183 active open-enrollment charter schools in the State and there were 798 charter school campuses operating under such charters (though as of such date, 13 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305

charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

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

### **2017 Legislative Changes to the Charter District Bond Guarantee Program**

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

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

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75 percent of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the

charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2019, the Charter District Reserve Fund represented approximately 1.12% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

### **Charter District Risk Factors**

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At August 31, 2019, the Charter District Reserve Fund contained \$21,578,541.

### **Potential Impact of Hurricane Harvey on the PSF**

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF. Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey.

### Ratings of Bonds Guaranteed Under the Guarantee Program

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

### Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 <sup>(2)</sup>	35,288,344,220	46,554,515,717

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

<sup>(2)</sup> At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At August 31, 2019, the PSF had a book value of \$35,288,344,220 and a market value of \$46,554,515,717. August 31, 2019 values are based on unaudited data, which is subject to adjustment.

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

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

<sup>(2)</sup> As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,264, of which \$48,790,249,061 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program

**Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	63,197,514,047	28	\$757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	34	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 <sup>(2)</sup>	3,297	82,534,755,203	49	1,432,935,000	3,346	84,397,900,203

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

<sup>(2)</sup> At August 31, 2019 (based on unaudited data, which is subject to adjustment), there were \$84,397,900,203 of bonds guaranteed under the Guarantee Program, representing 3,346 school district issues, aggregating \$82,537,755,203 in principal amount and 49 charter district issues, aggregating \$1,860,145,000 in principal amount. At August 31, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$3,265,722,717 (based on unaudited data, which is subject to adjustment).

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

The following discussion is derived from the Annual Report for the year ended August 31, 2018, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein, and will be updated upon the release of the Annual Report for the year ended August 31, 2019. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2018, the Fund’s land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2018, the Fund balance was \$44.0 billion, an increase of \$2.6 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2018, were 7.23%, 7.68% and 6.92%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) real assets, including cash, were 8.69%, 7.78%, and 4.23%, respectively.

The market value of the Fund’s assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2018, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$4.2 billion and capital commitments to private equity limited partnerships for a total of \$5.2 billion. Unfunded commitments at August 31, 2018, totaled \$1.5 billion in real estate investments and \$2.1 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2018, the remaining commitments totaled approximately \$2.6 billion.

The PSF(SBOE)’s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)’s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined,

all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$4.0 billion, a decrease of \$1.4 billion from fiscal year 2017 earnings of \$5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 17.1% for the fiscal year ending August 31, 2018. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2017 and 2018, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed \$79.1 billion in bonds issued by 858 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,242 school district and charter district bond issues totaling \$176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.8 billion or 6.5%. The State Capacity Limit increased by \$6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only \$5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

### **2011 and 2019 Constitutional Amendment**

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

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

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

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

Changes in the Distribution Rate for each biennial period has been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate

calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

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

### **Other Events and Disclosures**

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

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

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

As of August 31, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

### **PSF Continuing Disclosure Undertaking**

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



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

### **Annual Reports**

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

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

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

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

### **Event Notices**

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

provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

### **Availability of Information**

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

### **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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

## **LEGAL MATTERS**

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Taxable Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Taxable Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Taxable Bonds being issued in compliance with the provisions of applicable law and the interest on the Taxable Bonds being excludable from gross income for purposes of federal income tax, subject to the matters described under “TAX MATTERS” herein. The form of Bond Counsel’s opinion is attached hereto as APPENDIX C.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Taxable Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Taxable Bonds. Bond

Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "DTC Notices," "Permanent School Fund Guarantee," "Payment Record," and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM (except under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last sentence of the first paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and such firm is of the opinion that the information relating to the Taxable Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Taxable Bonds, such information conforms to the Order. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Taxable Bonds from proceeds of the Taxable Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Taxable Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Taxable Bonds will also be furnished to the Underwriters by the District. Certain legal matters will be passed upon for the Underwriters by their counsel, Kassahn & Ortiz, P.C., San Antonio, Texas.

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

## TAX MATTERS

### Certain Federal Income Tax Considerations

*General.* The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds and is based on the Internal Revenue Code of 1986 (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Taxable Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to the branch profits tax or, personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Taxable Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Taxable Bonds as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Taxable Bond who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Taxable Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF TAXABLE BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE BONDS BEFORE DETERMINING WHETHER TO PURCHASE TAXABLE BONDS.

THIS SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

### **Certain U.S. Federal Income Tax Consequences to U.S. Holders**

*Periodic Interest Payments and Original Issue Discount.* The Taxable Bonds are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable Bonds or original issue discount, if any, accruing on the Taxable Bonds will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

*Disposition of Bonds.* An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Taxable Bonds. Generally, a U.S. Holder's tax basis in the Taxable Bonds will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable Bonds has been held for more than one year.

*Defeasance of the Taxable Bonds.* Defeasance of any Taxable Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

*State, Local and Other Tax Consequences.* Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Taxable Bonds under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Taxable Bonds. PROSPECTIVE PURCHASERS OF THE TAXABLE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

### **Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders**

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Taxable Bond, will not be subject to U.S. federal income or withholding tax in respect of a Taxable Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Taxable Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Taxable Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 of the Code or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

No registration statement relating to the Taxable Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Taxable Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Taxable Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Taxable Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Taxable Bonds under the securities

laws of any jurisdiction in which the Taxable Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Taxable Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

## **RATINGS**

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

An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the view of S&P, and the District makes no representation as to the appropriateness of such ratings. A rating is not a recommendation to buy, sell or hold the Taxable Bonds, and such rating may be subject to revision or withdrawal at any time by S&P. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Taxable Bonds.

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

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

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

## **INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT**

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected

by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of business organization offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

**Current Investments**

As of September 30, 2019\*, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Investment Pools	\$17,144,473.47	62.72%
Commercial Bank Business Savings	25,053,861.41	28.93%
CDs	<u>2,282,167.82</u>	<u>8.35%</u>
<b>Total</b>	<b><u>\$27,336,029.23</u></b>	<b><u>100.00%</u></b>

\*Unaudited.

(A) The District invests in the LoneStar, TexPool, and TexStar investment pools, which operate pursuant to Chapter 2256 of the Texas Government Code, as amended, as money market equivalents, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

**EMPLOYEE BENEFIT PLANS AND OTHER POST EMPLOYMENT BENEFITS**

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program ("TRS Care"), a cost sharing multiple-employer defined benefit post employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan, TRS Care and the District's medical benefit plan, see Notes R, S, T, and U to the audited financial statements of the District that are attached hereto as APPENDIX D.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS retirement plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

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

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

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Taxable Bonds. The District is required to observe the agreement for so long as it remains an “obligated person” with respect to the Taxable Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB through its EMMA system. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the TEA’s continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in “APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT” (Tables 1 through 16) (such information being the (“Annual Operating Tables”). The District will additionally provide financial statements of the District (the “Financial Statements”), that will be (i) prepared in accordance with the accounting principles described in “APPENDIX D – AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED August 31, 2020” or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in APPENDIX D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Tables within six (6) months after the end of each fiscal year and the Financial Statements within twelve (12) months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within twelve (12) months after any such fiscal year end, then the District shall file unaudited Financial Statements within such twelve (12) month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The District’s current fiscal year end is August 31. Accordingly, the Annual Operating Tables must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Event Notices**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Taxable Bonds, to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance of the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS 5701-TEB) or other material notices or determinations with respect to the tax status of the Taxable Bonds, or other material events affecting the tax status of the Taxable Bonds; (7) modifications to rights of holders of the Taxable Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Taxable Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of a name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.



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

In addition, the District will provide timely notice of any failure by the District to provide information, data or financial statements in accordance with its agreement described above under “Annual Reports”. Neither the Taxable Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

### **Availability of Information**

The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of Taxable Bonds free of charge through the MSRB’s EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

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

## **VERIFICATION OF MATHEMETICAL COMPUTATION**

Robert Thomas CPA, LLC, a firm of independent certified public accountants, will deliver to the District, on or before the settlement date of the Taxable Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

Robert Thomas CPA, LLC, relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Robert Thomas CPA, LLC, has relied on any information provided to it by the District’s retained

advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

The verification report will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

### **LITIGATION**

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

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

### **FINANCIAL ADVISOR**

In its role as Financial Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and the Taxable Bonds. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The fee of the Financial Advisor for services with respect to the Taxable Bonds is contingent upon the issuance and sale of the Taxable Bonds. In the normal course of business, the Financial Advisor may also from time to time conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

### **UNDERWRITING**

The Underwriters have agreed, subject to certain customary conditions, to purchase the Taxable Bonds at a price equal to the initial offering prices to the public, as shown on the page ii hereof, less an Underwriters' discount of \$\_\_\_\_\_. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Taxable Bonds if any Taxable Bonds are purchased. The Taxable Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed, from time to time, by the Underwriters.

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

Piper Sandler & Co. ("Piper"), one of the underwriters of the Taxable Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Taxable Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Taxable Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Taxable Bonds that CS&Co. sells.

On November 4, 2019, First Horizon Bank and IberiaBank announced its intention to enter into a merger, pending regulatory approval, creating a leading regional financial services company. The new company will retain the First Horizon Bank name and will have its headquarters in Memphis, TN, while maintaining a significant operating presence in all of the markets in which both companies operate today. The transaction is expected to be completed in the second quarter of 2020, following the satisfaction of closing conditions, including approval by shareholders of both companies. Until all conditions, including regulatory approvals are provided, First Horizon Bank and IberiaBank will continue to be separate, independent companies and until transaction closing, both companies will operate as they do today.

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

### **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement

are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

#### **CONCLUDING STATEMENT**

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

#### **MISCELLANEOUS**

The Bond Order delegated to the Pricing Officer the authority to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Taxable Bonds by the Underwriters.

This Official Statement will be approved by the Pricing Officer of the District for distribution by the Underwriters in accordance with the provisions of the Rule.

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Pricing Officer

**SCHEDULE I  
SCHEDULE OF BONDS TO BE REFUNDED\***

**Unlimited Tax School Building Bonds, Series 2011**

<b>Original Dated Date</b>	<b>Original Principal Amount</b>	<b>Total Principal Amount Outstanding</b>	<b>Maturities Being Refunded</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Being Refunded</b>	<b>Maturity Amount Being Refunded</b>	<b>Redemption Date</b>
09/01/2011	\$ 69,001,362.00	\$ 58,520,077.70	08/01/2023 <sup>(A)</sup>	\$ 1,621,208.25	\$ 1,621,208.25	2,565,000.00	08/01/2021
			08/01/2024 <sup>(A)</sup>	1,575,225.40	1,575,225.40	2,660,000.00	08/01/2021
			08/01/2025 <sup>(A)</sup>	1,531,358.40	1,531,358.40	2,760,000.00	08/01/2021
			08/01/2026 <sup>(A)</sup>	1,497,163.05	1,497,163.05	2,865,000.00	08/01/2021
			08/01/2027 <sup>(A)</sup>	1,433,567.85	1,433,567.85	2,915,000.00	08/01/2021
			08/01/2028 <sup>(A)</sup>	1,373,922.00	1,373,922.00	2,970,000.00	08/01/2021
			***	***	***	***	***
			08/01/2031 <sup>(B)</sup>	1,035,000.00	1,035,000.00	1,035,000.00	08/01/2021
			08/01/2032 <sup>(B)</sup>	3,645,000.00	3,645,000.00	3,645,000.00	08/01/2021
			08/01/2033 <sup>(B)</sup>	3,855,000.00	3,855,000.00	3,855,000.00	08/01/2021
			08/01/2034 <sup>(B)</sup>	4,075,000.00	4,075,000.00	4,075,000.00	08/01/2021
			08/01/2035 <sup>(B)</sup>	4,305,000.00	4,305,000.00	4,305,000.00	08/01/2021
			08/01/2036 <sup>(B)</sup>	4,550,000.00	4,550,000.00	4,550,000.00	08/01/2021
			08/01/2037 <sup>(B)</sup>	4,805,000.00	4,805,000.00	4,805,000.00	08/01/2021
			08/01/2038 <sup>(C)</sup>	4,970,000.00	4,970,000.00	4,970,000.00	08/01/2021
			08/01/2039 <sup>(C)</sup>	5,210,000.00	5,210,000.00	5,210,000.00	08/01/2021
			08/01/2040 <sup>(C)</sup>	5,460,000.00	5,460,000.00	5,460,000.00	08/01/2021
			08/01/2041 <sup>(C)</sup>	5,725,000.00	4,775,000.00	4,775,000.00	08/01/2021
			<b>Series 2011 Total</b>	<b>\$ 56,667,444.95</b>	<b>\$ 55,717,444.95</b>	<b>\$ 63,420,000.00</b>	

<sup>(A)</sup> Represents a capital appreciation bond that will be redeemed at its accreted value.

<sup>(B)</sup> Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/1/2037.

**Unlimited Tax School Building Bonds, Series 2013**

<b>Original Dated Date</b>	<b>Original Principal Amount</b>	<b>Total Principal Amount Outstanding</b>	<b>Maturities Being Refunded</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount Being Refunded</b>	<b>Maturity Amount Being Refunded</b>	<b>Redemption Date</b>
08/15/2013	\$ 9,410,000.00	\$ 8,045,000.00	08/01/2036 <sup>(A)</sup>	\$ 435,000.00	\$ 435,000.00	435,000.00	08/01/2023
			08/01/2037 <sup>(A)</sup>	455,000.00	455,000.00	455,000.00	08/01/2023
			08/01/2038 <sup>(B)</sup>	475,000.00	475,000.00	475,000.00	08/01/2023
			08/01/2039 <sup>(B)</sup>	500,000.00	500,000.00	500,000.00	08/01/2023
			08/01/2040 <sup>(B)</sup>	520,000.00	520,000.00	520,000.00	08/01/2023
			08/01/2041 <sup>(B)</sup>	545,000.00	545,000.00	545,000.00	08/01/2023
			<b>Series 2013 Total</b>	<b>\$ 2,930,000.00</b>	<b>\$ 2,930,000.00</b>	<b>\$ 2,930,000.00</b>	

<sup>(A)</sup> Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/1/2037.

<sup>(B)</sup> Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/1/2041.

**TOTAL REFUNDED BONDS**

**\$ 59,597,444.95      \$ 58,647,444.95      \$ 66,350,000.00**

\*Preliminary, subject to change.

**SCHEDULE II**  
**SCHEDULE OF ACCRETED VALUES OF PREMIUM CAPITAL APPRECIATION BONDS\***

<b>Date</b>	<b>CAB Bond 08/01/23 @ %</b>	<b>CAB Bond 08/01/24 @ %</b>	<b>CAB Bond 08/01/25 @ %</b>	<b>CAB Bond 08/01/26 @ %</b>
02/27/20				
08/01/20				
02/01/21				
08/01/21				
02/01/22				
08/01/22				
02/01/23				
08/01/23				
02/01/24				
08/01/24				
02/01/25				
08/01/25				
02/01/26				
08/01/26				
02/01/27				
08/01/27				

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\*Preliminary, subject to change.

**APPENDIX A**

**FINANCIAL INFORMATION REGARDING THE DISTRICT**

**FINANCIAL INFORMATION REGARDING  
THE DENISON INDEPENDENT SCHOOL DISTRICT**

**Table 1  
ASSESSED VALUATION**

2019/20 Total Assessed Valuation.....	\$ 2,752,967,791
2019/20 Taxable Assessed Valuation.....	\$ 2,190,755,886 <sup>(A)</sup>
<u>Exemption</u>	<u>Total</u>
Residential Homestead.....	\$ 164,377,767
10% Residential Cap.....	87,177,510
Over 65/Disabled Person.....	47,792,286
Disabled/Deceased Veterans.....	19,990,091
Freeport Exemption.....	38,850,881
Productivity Loss.....	203,019,387
Pollution Control.....	509,877
Other.....	494,106
Total (20.42% of Total Assessed Valuation).....	<u>\$ 562,211,905</u>

<sup>(A)</sup> Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Source: State Property Tax Reports and Grayson County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Grayson County Appraisal District updates records.

**Table 2  
GENERAL OBLIGATION DEBT OUTSTANDING**

Unlimited Tax Bonds Outstanding (as of February 1, 2020).....	\$ 76,889,560
Plus: The Tax-Exempt Bonds (as of February 1, 2020).....	\$ 17,900,000 <sup>(A)</sup>
Less: The Refunded Bonds.....	\$ (58,647,445) <sup>(A)</sup>
Plus: The Taxable Bonds (as of February 1, 2020).....	\$ 58,645,000 <sup>(A)</sup>
Less: Interest & Sinking Fund Balance (as of August 31, 2019).....	(2,643,898)
NET UNLIMITED TAX SUPPORTED DEBT.....	<u>\$ 92,143,217</u>
Ratio Net Debt to Taxable Assessed Valuation .....	4.21%
2019 District Population *                      28,197              Per Capita Taxable Assessed Valuation	\$77,695
2019/20 Enrollment                                      4,750              Per Capita Total Assessed Valuation	\$97,633
Area (square miles)                                      99.77              Per Capita Net Debt	\$3,268

\*Source Municipal Advisory Council of Texas.

<sup>(A)</sup> Preliminary, subject to change.

**Table 3  
ESTIMATED OVERLAPPING DEBT STATEMENT**

<u>Taxing Body</u>	Gross <u>Dollar Amount</u>	<u>As of</u>	Percent <u>% Overlap</u>	Dollar <u>\$ Overlap</u>
Denison, City of	\$ 50,635,000	12/31/2019	94.22%	\$ 47,708,297
Grayson County	41,185,000	12/31/2019	19.69%	8,109,327
Grayson Co JCD	25,385,000	12/31/2019	19.72%	5,005,922
Sherman, City of	<u>75,460,000</u>	12/31/2019	2.41%	<u>1,818,586</u>
Total Overlapping Debt	\$ 192,665,000			\$ 62,642,132
<b>Denison ISD</b>	<b>\$ 94,787,115 <sup>(A)</sup></b>	<b>02/01/2020</b>	<b>100.00%</b>	<b><u>94,787,115</u></b>
<b>Total Direct and Overlapping Debt</b>				<b><u>\$ 157,429,247</u></b>
				Ratio Direct and Overlapping Debt to Taxable Assessed Valuation 7.19%
				Ratio Direct and Overlapping Debt to Total Assessed Valuation 5.72%
				Per Capita Direct and Overlapping Debt \$5,583

Source: Texas Municipal Reports.

<sup>(A)</sup> Includes the Tax-Exempt Bonds and the Taxable Bonds. Excludes the Refunded Bonds. Preliminary, subject to change.

**Table 4  
2019 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES**

Denison, City of .....	\$0.65203
Grayson County.....	\$0.41643
Grayson Co JCD.....	\$0.17175
Sherman, City of.....	\$0.48900

Source: Grayson Central Appraisal District. See "ESTIMATED OVERLAPPING DEBT STATEMENT" for information concerning overlapping territory percentages for these entities.



**Table 5  
PROPERTY TAX RATES AND COLLECTIONS**

<b>Tax Year</b>	<b>Taxable Assessed Valuation</b>	<b>Tax Rate<sup>(A)</sup></b>	<b>% Collections</b>		<b>Fiscal Year Ended</b>
			<b>Current</b>	<b>Total</b>	
2014	\$1,447,108,214	\$1.4992	99.61%	100.22%	08/31/15
2015	1,474,588,319	1.4992	98.47%	100.04%	08/31/16
2016	1,587,635,756	1.4992	98.40%	99.74%	08/31/17
2017	1,727,805,566	1.4992	98.29%	98.93%	08/31/18
2018	1,944,873,620	1.4992	<u>98.19%</u>	<u>99.44%</u>	08/31/19
	<b>Five Year Average.....</b>		<b><u>98.59%</u></b>	<b><u>99.67%</u></b>	
2019	\$2,190,755,886	\$1.3976	35.99% <sup>(B)</sup>	34.74% <sup>(B)</sup>	08/31/20

<sup>(A)</sup> Excludes penalties and interest.

<sup>(B)</sup> Partial collections as of December 31, 2019.

Source: District's Audited Financial Statements, State Property Tax Reports, District Records.

**Table 6  
TAX RATE DISTRIBUTION**

	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>
Local Maintenance	\$1.0684	\$1.1700	\$1.1700	\$1.1700	\$1.1700
Interest & Sinking Fund	<u>0.3292</u>	<u>0.3292</u>	<u>0.3292</u>	<u>0.3292</u>	<u>0.3292</u>
Total Tax Rate	<b><u>\$1.3976</u></b>	<b><u>\$1.4992</u></b>	<b><u>\$1.4992</u></b>	<b><u>\$1.4992</u></b>	<b><u>\$1.4992</u></b>

Source: District's Audited Financial Statements and District Records.

**Table 7  
VALUATION AND FUNDED DEBT HISTORY**

<b>Fiscal Year End <u>8-31</u></b>	<b>Taxable Assessed Valuation</b>	<b>Change in Value</b>	<b>Principal Amount of Funded Debt Outstanding</b>	<b>Ratio Debt to <u>TAV</u></b>
2015	\$1,447,108,214	2.53%	\$80,613,124	5.57%
2016	1,474,588,319	1.90%	79,813,186	5.41%
2017	1,587,635,756	7.67%	78,895,050	4.97%
2018	1,727,805,566	8.83%	77,927,040	4.51%
2019	1,944,873,620	12.56%	76,889,560	3.95%
2020	2,190,755,886	12.64%	93,246,093 <sup>(A)</sup>	4.26%

<sup>(A)</sup> Projected for fiscal year end. Includes the Tax-Exempt Bonds and the Taxable Bonds. Excludes the Refunded Bonds. Preliminary, subject to change.

**Table 8  
HISTORICAL TOP TEN TAXPAYERS**

**PRINCIPAL TAXPAYERS AND THEIR 2019 TAXABLE ASSESSED VALUATIONS**

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>% T.A.V.</u>
UHS Of Texoma Inc.	Healthcare	\$ 140,000,000	6.39%
Universal Health Services	Healthcare	38,520,595	1.76%
Ruiz Food Products Inc.	Food Products	35,356,794	1.61%
Grayson Properties LP	Real Estate	22,240,055	1.02%
Ruiz Food Products Inc.	Food Products	22,002,900	1.00%
Spectrum Brands Inc.	Household Products Mfg.	20,476,462	0.93%
Covenant Denison Holdings LLC	Holding Co.	18,934,873	0.86%
MFT Twin Oaks LLC	Real Estate	13,757,842	0.63%
Union Pacific Railroad Co.	Railroad	13,603,193	0.62%
Oncor Electric Delivery Co. LLC	Electric Utility	13,199,186	0.60%
<b>Total</b>		<b>\$ 338,091,900</b>	<b>15.43%</b>

**PRINCIPAL TAXPAYERS AND THEIR 2018 TAXABLE ASSESSED VALUATIONS**

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>% T.A.V.</u>
UHS Of Texoma Inc.	Healthcare	\$ 125,000,000	6.43%
Ruiz Food Products Inc.	Food Products	51,828,186	2.66%
Spectrum Brands Inc.	Household Products Mfg.	30,158,566	1.55%
Universal Health Services	Healthcare	29,838,957	1.53%
Ruiz Food Products Inc.	Food Products	23,752,894	1.22%
Grayson Properties LP	Real Estate	22,000,000	1.13%
Union Pacific Railroad Co.	Railroad	21,171,456	1.09%
Oncor Electric Delivery Co. LLC	Electric Utility	18,548,852	0.95%
Covenant Denison Holdings LLC	Holding Co.	18,394,596	0.95%
Cooper B-Line System	Equipment Mfg.	17,987,999	0.92%
<b>Total</b>		<b>\$ 358,681,506</b>	<b>18.44%</b>

**PRINCIPAL TAXPAYERS AND THEIR 2017 TAXABLE ASSESSED VALUATIONS**

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>% T.A.V.</u>
UHS Of Texoma Inc.	Healthcare	\$ 106,000,000	6.13%
Ruiz Food Products Inc.	Food Products	48,581,150	2.81%
Universal Health Services	Healthcare	29,420,595	1.70%
Ruiz Food Products Inc.	Food Products	27,077,803	1.57%
Spectrum Brands Inc.	Household Products Mfg.	24,963,313	1.44%
Grayson Properties LP	Real Estate	24,050,000	1.39%
Cooper B-Line System	Equipment Mfg.	19,808,073	1.15%
Union Pacific Railroad Co.	Railroad	19,490,359	1.13%
Oncor Electric Delivery Co. LLC	Electric Utility	16,718,335	0.97%
Covenant Denison Holdings LLC	Holding Co.	14,960,720	0.87%
<b>Total</b>		<b>\$ 331,070,348</b>	<b>19.16%</b>

Source: Grayson County Appraisal District and State Property Tax Reports.

**Table 9**  
**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

<b>Property Use Category</b>	<b>Total Tax Roll for Fiscal Years</b>				
	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>
Real and Personal Property					
Single-Family Residential	\$ 1,358,233,252	\$ 1,191,681,090	\$ 1,040,983,936	\$ 939,553,292	\$ 839,260,539
Multi-Family Residential	44,499,391	37,446,319	33,550,154	28,969,412	28,674,562
Vacant Lots/Tracts	63,848,592	54,580,195	45,255,675	45,982,398	39,949,938
Acreage (Land Only)	210,426,220	176,576,065	166,372,713	148,212,252	124,734,829
Farm and Ranch Improvements	117,974,201	100,574,662	93,788,038	86,969,313	79,685,423
Commercial and Industrial	566,394,114	515,593,850	472,198,166	444,492,033	424,174,587
Inventory	18,304,352	12,301,108	14,088,238	8,372,372	8,197,673
Tangible Personal Property					
Business	287,244,749	280,937,212	264,751,175	255,671,125	247,307,687
Mobile Homes/Other	3,429,810	2,920,994	3,006,398	2,764,155	2,701,408
Real & Tangible Personal Property					
Utilities	82,613,110	67,808,533	63,453,103	71,351,177	69,085,628
<b>Total Real &amp; Tang. Per. Prop.</b>	<b>\$ 2,752,967,791</b>	<b>\$ 2,440,420,028</b>	<b>\$ 2,197,447,596</b>	<b>\$ 2,032,337,529</b>	<b>\$ 1,863,772,274</b>
<b>Less: Exemptions</b>					
Residential Homestead	\$ 164,377,767	\$ 159,467,565	\$ 160,993,451	\$ 159,430,056	\$ 160,175,848
10% Cap Loss	87,177,510	61,471,562	47,139,189	42,637,732	14,006,351
Over 65/Disabled Person	47,792,286	45,768,220	44,892,796	43,162,517	42,193,177
Disabled/Deceased Veterans	19,990,091	15,313,977	13,260,004	12,096,219	9,811,435
Freeport Exemption	38,850,881	43,415,947	42,699,896	44,789,738	43,800,759
Productivity Loss	203,019,387	168,962,313	159,584,042	141,506,890	118,103,923
Pollution Control	509,877	711,678	730,168	822,911	894,090
Other	494,106	435,146	342,484	255,710	198,372
<b>Total Exemptions</b>	<b>\$ 562,211,905</b>	<b>\$ 495,546,408</b>	<b>\$ 469,642,030</b>	<b>\$ 444,701,773</b>	<b>\$ 389,183,955</b>
<b>Taxable Assessed Valuation</b>	<b>\$ 2,190,755,886</b>	<b>\$ 1,944,873,620</b>	<b>\$ 1,727,805,566</b>	<b>\$ 1,587,635,756</b>	<b>\$ 1,474,588,319</b>

Source: State Property Tax Reports and Grayson County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Grayson County Appraisal District updates records.

**PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY**

<b>Property Use Category</b>	<b>Percent of Total Tax Roll for Fiscal Years</b>				
	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>
Real Property					
Single-Family Residential	49.34%	48.83%	47.37%	46.23%	45.03%
Multi-Family Residential	1.62%	1.53%	1.53%	1.43%	1.54%
Vacant Lots/Tracts	2.32%	2.24%	2.06%	2.26%	2.14%
Acreage (Land Only)	7.64%	7.24%	7.57%	7.29%	6.69%
Farm and Ranch Improvements	4.29%	4.12%	4.27%	4.28%	4.28%
Commercial and Industrial	20.57%	21.13%	21.49%	21.87%	22.76%
Inventory	0.66%	0.50%	0.64%	0.41%	0.44%
Tangible Personal Property					
Business	10.43%	11.51%	12.05%	12.58%	13.27%
Other	0.12%	0.12%	0.14%	0.14%	0.14%
Real & Tangible Personal Property					
Utilities	<u>3.00%</u>	<u>2.78%</u>	<u>2.89%</u>	<u>3.51%</u>	<u>3.71%</u>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

**Table 10**  
**OUTSTANDING UNLIMITED TAX DEBT SERVICE**

Fiscal Year Ending 8/31	Outstanding Debt Service		Plus: The Tax-Exempt Bonds <sup>(A)</sup>		Less: The	Plus: The Taxable Bonds <sup>(C)</sup>		Total
	Principal	Interest	Principal	Interest	Refunded Bonds Debt Service <sup>(B)</sup>	Principal	Interest	Debt Service Requirement
2020	\$ 1,111,022	\$ 4,252,696	\$ -	\$ 364,253	\$ 1,155,219	\$ 430,000	\$ 719,348	\$ 5,722,100.56
2021	1,267,933	4,233,436	1,650,000	851,500	2,310,438	-	1,674,110	7,366,541.46
2022	1,923,160	3,675,709	1,895,000	769,000	2,310,438	-	1,674,110	7,626,541.46
2023	1,886,208	3,809,861	2,035,000	674,250	4,875,438	290,000	4,029,110	7,848,991.46
2024	1,850,225	3,941,568	1,095,000	572,500	4,970,438	155,000	4,259,110	6,902,966.46
2025	1,816,358	4,075,810	1,180,000	517,750	5,070,438	90,000	4,419,110	7,028,591.46
2026	1,792,163	4,205,031	1,020,000	458,750	5,175,438	2,210,000	2,409,110	6,919,616.46
2027	1,738,568	4,308,301	1,150,000	407,750	5,225,438	3,040,000	1,626,128	7,045,309.46
2028	1,688,922	4,412,272	1,155,000	350,250	5,280,438	3,160,000	1,559,218	7,045,224.06
2029	3,375,000	2,803,594	805,000	292,500	2,310,438	265,000	1,484,768	6,715,424.46
2030	3,565,000	2,668,594	785,000	252,250	2,310,438	275,000	1,478,392	6,713,798.56
2031	3,755,000	2,525,131	780,000	213,000	3,345,438	1,315,000	1,471,638	6,714,332.06
2032	4,020,000	2,363,694	715,000	174,000	5,903,688	3,905,000	1,438,027	6,712,033.16
2033	4,245,000	2,166,444	720,000	145,400	5,931,438	4,040,000	1,334,310	6,719,716.36
2034	4,480,000	1,958,094	720,000	116,600	5,958,688	4,175,000	1,222,968	6,713,973.96
2035	4,725,000	1,737,638	280,000	87,800	5,984,938	4,320,000	1,103,730	6,269,229.70
2036	4,985,000	1,505,063	260,000	76,600	6,449,688	4,915,000	978,191	6,270,165.50
2037	5,260,000	1,257,988	250,000	66,200	6,477,613	5,095,000	822,975	6,274,549.80
2038	5,445,000	997,263	335,000	56,200	6,401,888	5,180,000	662,075	6,273,649.70
2039	5,710,000	765,256	310,000	42,800	6,434,881	5,375,000	498,490	6,266,665.30
2040	5,980,000	521,956	300,000	30,400	6,461,581	5,575,000	328,748	6,274,522.80
2041	6,270,000	267,156	460,000	18,400	5,546,781	4,835,000	152,689	6,456,464.30
<b>TOTAL</b>	<b>\$ 76,889,560</b>	<b>\$ 58,452,552</b>	<b>\$ 17,900,000</b>	<b>\$ 6,538,153</b>	<b>\$ 105,891,213</b>	<b>\$ 58,645,000</b>	<b>\$ 35,346,356</b>	<b>\$ 147,880,408.50</b>

Note: Table 10 does not include any potential funding the District may receive from the State of Texas from either the Instructional Facilities Allotment and/or Existing Debt Allotment programs. For fiscal year ending August 31, 2019, the District received \$177,138 from the State for debt service assistance. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. Table 10 does not include any obligations payable from District's Maintenance & Operations tax rate.

<sup>(A)</sup> Debt service on the Tax-Exempt Bonds is shown assuming a true interest cost of 2.217% for illustrative purposes. Preliminary, subject to change. The Tax-Exempt Bonds are being sold concurrently with the Taxable Bonds but pursuant to a separate offering document. Such separate offering document should be reviewed and analyzed independently, including, without limitation, the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest for federal income tax purposes, and the rights of the holders. Initial delivery of the Tax-Exempt Bonds through the facilities of DTC is expected to occur on or about February 27, 2020.

<sup>(B)</sup> Preliminary, subject to change.

<sup>(C)</sup> Debt service on the Taxable Bonds is shown assuming an interest rate of 3.169% for illustrative purposes. Preliminary, subject to change.

**Table 11**  
**TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS**

Projected Maximum Principal & Interest Requirements, FYE August 31, 2023	\$	7,848,991
\$0.3656 Tax Rate @ 98% Collection Produces.....	\$	7,849,215 <sup>(A)</sup>

<sup>(A)</sup> Based on 2019/20 Taxable Assessed Valuation of \$2,190,755,886. Does not include funds projected to be received from the State for debt service assistance. For fiscal year ending August 31, 2019, the District received \$177,138 from the State for debt service assistance. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

**Table 12**  
**AUTHORIZED BUT UNISSUED BONDS**

Purpose	Date Authorized	Amount Authorized	Amount Issued	Unissued Balance
School Buildings	5-Nov-19	\$ 20,850,000	\$ 20,850,000 <sup>(A)</sup>	\$ -

<sup>(A)</sup> Amount issued includes premium from the Tax-Exempt Bonds that will be deposited into the District's construction fund and applied against the amount of authorization. Preliminary, subject to change.

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

**Table 13**  
**INTEREST & SINKING FUND BUDGET INFORMATION**

Tax Supported Debt Service Requirement, Fiscal Year Ending August, 31, 2020.....	\$	6,677,101 <sup>(A)</sup>
Interest and Sinking Fund Balance as of August 31, 2019.....		2,643,898
Local Sources (i.e. taxes, interest earnings, etc.).....		<u>6,595,000</u> <sup>(B)</sup>
 Projected Interest and Sinking Fund Balance at August 31, 2020.....	 \$	 <u>2,561,797</u>

<sup>(A)</sup> Includes paying agent fees and other debt administration costs. Includes the Taxable Bonds and the Tax-Exempt Bonds. Excludes the Refunded Bonds. Also includes \$950,000 for a planned cash redemption of a portion of the District's Series 2011 Bonds. Preliminary, subject to change.

<sup>(B)</sup> Based on the District's adopted budget for fiscal year 2019/20.

**Table 14  
GENERAL FUND BALANCE SHEET**

	<b>Fiscal Years Ended August 31,</b>				
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 21,013,818	\$ 18,168,724	\$ 15,253,636	\$ 12,071,262	\$ 8,669,339
Property Taxes (Delinquent), Net	1,084,383	988,697	983,906	969,624	1,026,186
Due From Other Governments	1,543,342	1,379,218	1,264,544	1,562,974	1,834,931
Other Receivables	7,190	60,765	302,721	688,364	1,120,364
Inventories	52,346	47,026	19,243	24,075	36,854
Prepayments	3,020	919	-	6,670	9,013
<b>Total Assets</b>	<b><u>\$ 23,704,099</u></b>	<b><u>\$ 20,645,349</u></b>	<b><u>\$ 17,824,050</u></b>	<b><u>\$ 15,322,969</u></b>	<b><u>\$ 12,696,687</u></b>
<b>Liabilities:</b>					
Accounts Payable	\$ 458,287	\$ 353,198	\$ 266,816	\$ 208,667	\$ 32,921
Accrued Wages Payable	2,027,521	1,855,590	1,690,855	1,291,324	1,022,993
Due to Other Funds	-	-	-	49,725	-
Due to Other Governments	265,170	762,628	480,991	41,341	-
Unearned Revenues	-	10,250	10,500	-	-
<b>Total Liabilities</b>	<b><u>\$ 2,750,978</u></b>	<b><u>\$ 2,981,666</u></b>	<b><u>\$ 2,449,162</u></b>	<b><u>\$ 1,591,057</u></b>	<b><u>\$ 1,055,914</u></b>
<b>Deferred Inflows of Resources:</b>					
Unavailable Revenue					
- Property Taxes	1,084,383	988,697	983,906	969,624	1,026,186
<b>Total Deferred Inflows of Resource:</b>	<b><u>\$ 1,084,383</u></b>	<b><u>\$ 988,697</u></b>	<b><u>\$ 983,906</u></b>	<b><u>\$ 969,624</u></b>	<b><u>\$ 1,026,186</u></b>
<b>Fund Balances:</b>					
Nonspendable Fund Balance					
Inventories	\$ 52,346	\$ 47,026	\$ 19,243	\$ 24,075	\$ 36,854
Prepaid Items	3,020	919	-	6,670	9,013
Committed Fund Balance	-	-	-	-	-
Other Committed Fund Balance	-	-	-	-	-
Unassigned Fund Balance	19,813,372	16,627,041	14,371,739	12,731,543	10,568,720
<b>Total Fund Balances</b>	<b><u>\$ 19,868,738</u></b>	<b><u>\$ 16,674,986</u></b>	<b><u>\$ 14,390,982</u></b>	<b><u>\$ 12,762,288</u></b>	<b><u>\$ 10,614,587</u></b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b><u>\$ 23,704,099</u></b>	<b><u>\$ 20,645,349</u></b>	<b><u>\$ 17,824,050</u></b>	<b><u>\$ 15,322,969</u></b>	<b><u>\$ 12,696,687</u></b>

Source: District's Audited Financial Statements.

**Table 15**  
**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

	Fiscal Years Ended August 31,				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 21,951,820	\$ 19,880,017	\$ 18,085,153	\$ 16,955,399	\$ 16,386,471
State Sources	22,718,964	23,231,039	22,927,919	24,396,496	22,438,864
Federal Sources	1,496,299	972,280	900,505	570,538	482,630
<b>Total Revenues</b>	<b><u>\$ 46,167,083</u></b>	<b><u>\$ 44,083,336</u></b>	<b><u>\$ 41,913,577</u></b>	<b><u>\$ 41,922,433</u></b>	<b><u>\$ 39,307,965</u></b>
<b>Expenditures:</b>					
Instruction	\$ 24,143,789	\$ 23,861,249	\$ 23,249,965	\$ 22,609,341	\$ 22,382,994
Inst Resources & Media Services	391,960	368,330	352,485	394,263	381,966
Curriculum & Staff Development	335,258	291,238	254,666	322,688	305,201
Instructional Leadership	557,406	518,686	648,837	667,229	638,942
School Leadership	2,044,483	2,004,864	1,998,892	2,006,939	1,979,321
Guidance & Counseling	1,686,505	1,558,400	1,583,525	1,597,627	1,470,090
Health Services	384,813	402,684	418,406	390,669	374,222
Pupil Transportation	2,067,046	1,840,747	1,759,754	1,609,108	1,534,231
Extracurricular Activities	1,816,478	1,757,761	1,590,565	1,556,171	1,540,377
General Administration	1,607,359	1,538,758	1,420,037	1,381,900	1,284,839
Facilities Maintenance & Operations	6,176,523	6,366,150	5,946,509	6,071,487	5,547,079
Data Processing & Sec Monitoring	837,968	857,279	655,852	790,585	737,620
Facilities Acquisition & Construction	449,875	-	-	-	536,989
Other Intergovernmental Charges	473,868	433,186	407,840	383,275	376,984
<b>Total Expenditures</b>	<b><u>\$ 42,973,331</u></b>	<b><u>\$ 41,799,332</u></b>	<b><u>\$ 40,287,333</u></b>	<b><u>\$ 39,781,282</u></b>	<b><u>\$ 39,090,855</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 3,193,752</u>	<u>\$ 2,284,004</u>	<u>\$ 1,626,244</u>	<u>\$ 2,141,151</u> <sup>(A)</sup>	<u>\$ 217,110</u>
<b>Other Resources and (Uses):</b>					
Other Financing Sources	\$ -	\$ -	\$ 2,450	\$ 6,550	\$ -
Other Financing Uses	-	-	-	-	-
<b>Total Other Resources and (Uses)</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,450</u></b>	<b><u>\$ 6,550</u></b>	<b><u>\$ -</u></b>
Transfers In / Out (Uses)	\$ -	\$ -	\$ -	\$ -	\$ (518,479)
Prior Period Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Change in Fund Balance</b>	<b><u>\$ 3,193,752</u></b>	<b><u>\$ 2,284,004</u></b>	<b><u>\$ 1,628,694</u></b>	<b><u>\$ 2,147,701</u></b>	<b><u>\$ (301,369)</u></b>
<b>Fund Balance, Beginning</b>	<b><u>\$ 16,674,986</u></b>	<b><u>\$ 14,390,982</u></b>	<b><u>\$ 12,762,288</u></b>	<b><u>\$ 10,614,587</u></b>	<b><u>\$ 10,915,956</u></b>
<b>Fund Balance, End of Year</b>	<b><u>\$ 19,868,738</u></b>	<b><u>\$ 16,674,986</u></b>	<b><u>\$ 14,390,982</u></b>	<b><u>\$ 12,762,288</u></b>	<b><u>\$ 10,614,587</u></b>

Source: District's Audited Financial Statements.

<sup>(A)</sup> The District's fund balance increased in FY2016, in large part due to receiving approximately \$2.0 million more in State program revenues than the budgeted amount.

<sup>(B)</sup> The District's fund balance decreased in FY2014, due planned expenditures for the following projects: \$1.75 million for equipping the new high school, \$2 million for renovations to the football stadium, and \$650,000 for the purchase of technology devices.

**Table 16**  
**STATEMENT OF ACTIVITIES<sup>(A)</sup>**

	<b>Fiscal Year Ending August 31,</b>				
	<u><b>2019</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>Revenues</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 1,262,916	\$ 1,307,591	\$ 1,050,531	\$ 1,183,452	\$ 1,163,864
Operating Grants and Contributions	<u>9,792,233</u>	<u>(1,142,564)</u>	<u>7,419,245</u>	<u>8,086,667</u>	<u>6,201,105</u>
Total Program Revenues	11,055,149	165,027	8,469,776	9,270,119	7,364,969
<b>General Revenues</b>					
Maintenance & Operations Taxes	21,025,661	18,580,164	17,481,383	16,158,943	15,757,402
Debt Service Taxes	5,915,893	5,227,717	4,918,650	4,546,601	4,435,034
State Aide - Formula Grants	20,692,603	21,131,735	20,963,258	22,447,138	21,321,553
Grants & Contributions Not Restricted	1,756,105	959,945	1,479,439	1,259,986	622,629
Investment Earnings	429,455	276,242	123,254	44,928	48,631
Miscellaneous/Other	<u>561,815</u>	<u>929,116</u>	<u>507,204</u>	<u>741,734</u>	<u>507,525</u>
Total Program Revenues	50,381,532	47,104,919	45,473,188	45,199,330	42,692,774
<b>Total Revenues.....</b>	<b><u>\$ 61,436,681</u></b>	<b><u>\$ 47,269,946</u></b>	<b><u>\$ 53,942,964</u></b>	<b><u>\$ 54,469,449</u></b>	<b><u>\$ 50,057,743</u></b>
<b>Expenses</b>					
Instruction	\$ 30,146,920	\$ 18,690,631	\$ 27,364,651	\$ 27,090,705	\$ 25,416,026
Instruction Resources & Media Services	527,925	361,733	470,810	515,657	485,885
Curriculum and Staff Development	572,919	346,373	525,284	614,467	575,616
Instructional Leadership	675,845	413,823	762,366	795,936	721,711
School Leadership	2,190,690	1,281,670	2,096,179	2,144,775	1,970,896
Guidance, Counseling, & Eval Services	2,007,657	1,224,998	1,811,344	1,826,869	1,624,442
Health Services	412,812	275,930	434,501	414,376	378,676
Student Transportation	1,900,449	1,443,525	1,716,462	1,576,244	1,624,949
Food Services	3,547,175	2,361,049	3,110,197	3,218,186	2,998,744
Extracurricular Activities	2,911,796	2,525,860	2,482,560	2,510,191	2,437,061
General Administration	1,696,799	1,129,250	1,474,474	1,459,342	1,292,742
Plant Maintenance and Operations	6,364,635	5,563,566	5,999,013	6,214,833	5,545,841
Security and Monitoring Services	316,671	211,437	191,340	190,669	161,308
Data Processing Services	602,457	508,812	528,594	647,901	582,293
Community Services	12,995	12,392	12,932	14,880	12,807
Debt Service	3,632,809	3,680,539	3,790,439	4,024,855	3,882,808
Bond Issuance Costs and Fees	5,600	-	-	1,250	1,250
Other Intergovernmental Charges	<u>473,868</u>	<u>433,186</u>	<u>407,840</u>	<u>383,275</u>	<u>376,984</u>
<b>Total Expenses.....</b>	<b><u>\$ 58,000,022</u></b>	<b><u>\$ 40,464,774</u></b>	<b><u>\$ 53,178,986</u></b>	<b><u>\$ 53,644,411</u></b>	<b><u>\$ 50,090,039</u></b>
<b>Change in Net Position</b>	<b><u>\$ 3,436,659</u></b>	<b><u>\$ 6,805,172</u></b>	<b><u>\$ 763,978</u></b>	<b><u>\$ 825,038</u></b>	<b><u>\$ (32,296)</u></b>
<b>New Position Beginning</b>	<b><u>\$ (345,763)</u></b>	<b><u>\$ 17,800,524</u></b>	<b><u>\$ 17,036,546</u></b>	<b><u>\$ 16,211,508</u></b>	<b><u>\$ 20,729,794</u></b>
<b>Prior Period Adjustments <sup>(B)</sup></b>	<b><u>\$ -</u></b>	<b><u>\$ (24,951,459)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (4,485,990)</u></b>
<b>Net Position Ending</b>	<b><u>\$ 3,090,896</u></b>	<b><u>\$ (345,763)</u></b>	<b><u>\$ 17,800,524</u></b>	<b><u>\$ 17,036,546</u></b>	<b><u>\$ 16,211,508</u></b>

(A) Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

(B) See Note 5 to The District's Audited Financial Statements for fiscal year ended August 31, 2018 for an explanation of the prior period adjustment.



**APPENDIX B**

**GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY**

**GENERAL INFORMATION REGARDING THE DISTRICT  
AND ITS ECONOMY**

Denison Independent School District (the “District”) encompasses approximately 99.7 square miles and includes the City of Denison (the “City”), a retail center for the tourist area surrounding Lake Texoma, the twelfth largest man-made lake in the U.S. The City is located off of Highway 75, just 75 miles north of Dallas and four miles south of the Texas/Oklahoma border. State Highway 120 passes through Denison from east to west, and State Highway 84 borders northern Denison, providing direct access to Lake Texoma. The City’s 2010 census population was 22,682. The City’s 2019 estimated population was 28,197.

Grayson County (the “County”), an agricultural and industrial area, encompassing 954 square miles, is located in north central Texas and adjoins the southern border of the State of Oklahoma. Lake Texoma comprises much of the County's northern border. The County is traversed by U.S. Highways 75 and 82. The County is primarily a manufacturing, distribution, and trade center for northern Texas and Southern Oklahoma. Tourism, minerals, and agribusiness also play a significant role in the County's economy. The County’s 2010 census population was 120,877. The County’s 2019 estimated population was 128,235.

The District is governed by a seven-member Board of Trustees (the “Board”). All of the Trustees are elected in single-member districts and all of the Trustees serve without compensation. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates nine instructional facilities which are fully accredited by the Texas Education Agency. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums. In addition, the District owns and operates additional facilities which include an administration building, a maintenance service center, and an athletic stadium.

**DISTRICT ENROLLMENT INFORMATION**

**Scholastic Enrollment History**

<b><u>Fiscal Year</u></b>	<b><u>Actual Enrollment</u></b>	<b><u>Increase/(Decrease)</u></b>	
		<b><u>Number</u></b>	<b><u>Percentage</u></b>
2010/11	4,467	(9)	(0.20%)
2011/12	4,402	(65)	(1.48%)
2012/13	4,399	(3)	(0.07%)
2013/14	4,409	10	0.23%
2014/15	4,544	135	2.97%
2015/16	4,581	37	0.81%
2016/17	4,505	(76)	(1.69%)
2017/18	4,658	153	3.40%
2018/19	4,727	69	1.48%
2019/20*	4,750	23	0.49%

Source: District Records.  
\*As of December 20, 2019.

**Projected Student Enrollment**

<b><u>Fiscal Year</u></b>	<b><u>Projected Enrollment</u></b>	<b><u>Increase/(Decrease)</u></b>	
		<b><u>Number</u></b>	<b><u>Percentage</u></b>
2020/21	4,786	36	0.75%
2021/22	4,822	36	0.75%
2022/32	4,858	36	0.75%
2023/24	4,895	36	0.75%
2024/25	4,931	36	0.75%

Source: District Records.

**Student Enrollment by Grades**

<b><u>Year</u></b>	<b><u>EE/PK</u></b>	<b><u>K</u></b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>	<b><u>8</u></b>	<b><u>9</u></b>	<b><u>10</u></b>	<b><u>11</u></b>	<b><u>12</u></b>	<b><u>Total</u></b>
2010/11	185	332	313	308	348	336	316	315	348	341	372	326	305	322	4,467
2011/12	192	323	345	298	298	350	317	328	311	356	347	341	307	289	4,402
2012/13	229	351	317	345	306	315	327	328	333	291	349	316	303	289	4,399
2013/14	238	356	343	314	330	322	317	323	330	321	326	332	269	288	4,409
2014/15	244	357	352	342	323	341	338	313	337	333	352	305	319	288	4,544
2015/16	209	348	363	352	335	330	339	335	327	337	396	321	281	308	4,581
2016/17	215	340	344	336	328	320	333	335	337	322	391	328	323	253	4,505
2017/18	213	335	350	345	345	349	338	338	365	349	377	364	298	292	4,658
2018/19	216	329	339	348	348	375	360	345	361	357	390	342	333	281	4,724
2019/20	257	379	322	328	339	341	367	367	352	360	384	353	300	301	4,750

Source: District Records.

**EMPLOYEES OF THE DISTRICT**

The District currently employs:

	<b><u>Employees</u></b>
Teachers, Counselors, Librarians, and Nurses	342
Administrators and Other Professional Staff	33
Teacher Aids and Secretaries	133
Auxiliary Employees (food service, maintenance, transportation)	<u>192</u>
<b>Total</b>	<b><u>700</u></b>

Beginning with the 2019/20 school year, entry level teachers without advanced degrees earned \$48,000 annually. Teachers with advanced degrees and longevity earn between \$48,500 and \$62,300 annually. All teachers receive life and health insurance benefits worth approximately \$334.95 monthly.

**PRESENT SCHOOL FACILITIES**

<b><u>Name of Facility</u></b>	<b><u>Grades Served</u></b>	<b><u>Present Enrollment</u></b>	<b><u>Planned Capacity</u></b>	<b><u>(Over)/ Under Capacity</u></b>	<b><u>Teachers</u></b>
Denison High School	9-12	1,309	1,500	191	110
Pathways High School	10-12	29	60	31	5
Henry Scott Middle School	7-8	712	900	188	58
B. McDaniel Intermediate School	5-6	734	800	66	61
Houston Elementary School	PK-4	236	300	64	13
Hyde Park Elementary School	PK-4	476	650	174	27
Lamar Elementary School	PK-4	451	500	49	26
Mayes Elementary School	PK-4	486	650	164	23
Terrell Elementary School	PK-4	<u>317</u>	<u>450</u>	<u>133</u>	<u>19</u>
<b>Total</b>		<b><u>4,750</u></b>	<b><u>5,810</u></b>	<b><u>1,060</u></b>	<b><u>342</u></b>

Source: District Records.

## GENERAL ECONOMIC DATA REGARDING GRAYSON COUNTY

### Economy and Industry

The economy of Grayson County (the “County”) is primarily based on agribusiness, manufacturing and distribution, mineral production, prisons, and tourism. Major agricultural products include beef cattle, wheat, corn, nurseries, turf, forage and horses. Minerals produced in Grayson County include oil, gas, sand, and gravel.

### Transportation

Grayson County is served by numerous motor freight lines offering daily pickup and delivery services. Rail and air transportation also deliver to sites around the country. The Burlington Northern Santa Fe Railway and the Texas North Eastern provide service in the County. Air service is provided in the County by the Sherman Municipal Airport and the North Texas Regional Airport. In addition, service to all United States and international destinations is available through the Dallas-Fort Worth International Airport and Dallas Love Field both located approximately 75 miles away.

### Medical

Residents in Denison and the surrounding area are served by a number of hospitals and medical facilities where more than 470 physicians are on staff. Texoma Medical Center is an acute care hospital with 333 private beds located in the City. They also have access to Wilson N. Jones Regional Hospital in Sherman, an acute care hospital with 222 beds. Additionally, there are many well established clinics to deliver urgent care, behavioral health, physical therapy, and skilled nursing care.

### Education

Austin College (the “College”) is a private, residential, coeducational liberal arts institution affiliated with the Presbyterian Church, located on 70 acres, in Sherman, Texas. The College awards the bachelor of arts degree and the master of arts in teaching degree and offers over 40 majors and minors and four pre-professional programs. The College was founded in 1849 and is accredited by the Southern Association of Colleges and Schools. The College serves approximately 1,350 students with 100 full-time faculty.

Grayson College, (“GC”) a junior college with its main campus in Denison, Texas, is a comprehensive college offering a multitude of academic and technical programs to approximately 5,000 students annually. GC was founded in 1960 and is accredited by the Southern Association of Colleges and Schools. GC provides academic transfer programs, career training, credit and non-credit certificate programs, customized training programs, and continuing education. The college also has dormitories, computer laboratories and modern health science labs.

### Major Employers

#### Grayson County Major Employers

<u>Company</u>	<u>Product</u>	<u>Employment</u>
Texoma Medical Center	Health Services	3,500
Tyson Fresh Meats	Meat Processing and Distribution	1,745
Ruiz Foods	El Monterey Frozen Foods	1,198
Sherman Independent School District	Public Education	1,091
Walmart / Sam’s	Retail	900
Texas Instruments	Semiconductors	900
Wilson N. Jones Regional Medical Center	Health Services	792
CIGNA	Insurance Claims Processing	700
Denison Independent School District	Public Education	680
Grayson County	County Government	560
Finisar	Vertical Cavity Surface Lasers	500
City of Sherman	City Government	429
Caterpillar, Inc.	Drilling Machinery Sales	400
Cooper B-Line Systems	Cable Trays/Electronic Enclosures	380
City of Denison	City Government	372
Emerson Process/Fischer Controls	Rotary Control Valves	370
Dialogue Direct Contact Centers	Customer Sales and Service	345
ACS Manufacturing	Acuoustical Equipment Enclosures	340
Eaton B-Line Systems	Metal Fabricated Products	335

Source: Denison Development Alliance.

## LABOR FORCE STATISTICS

### Comparative Unemployment Rates

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019<sup>(A)</sup></u>
Grayson County	4.0%	3.8%	3.5%	3.2%	2.9%
State of Texas	4.4%	4.6%	4.3%	3.9%	3.3%
United States	5.3%	4.9%	4.4%	3.9%	3.3%

Source: Labor Market Information Department, Texas Workforce Commission.

<sup>(A)</sup> As of November 2019

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**



**Proposed Form of Opinion of Bond Counsel**

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

**DENISON INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$**

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

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

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

**IT IS FURTHER OUR OPINION** that the Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986, as amended.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any

600 Congress Ave.  
Suite 1800  
Austin, Texas 78701  
T 512.478.3805  
F 512.472.0871

717 North Harwood  
Suite 900  
Dallas, Texas 75201  
T 214.754.9200  
F 214.754.9250

Two Allen Center  
1200 Smith Street, Suite 1550  
Houston, Texas 77002  
T 713.980.0500  
F 713.980.0510

700 N. St. Mary's Street  
Suite 1525  
San Antonio, Texas 78205  
T 210.225.2800  
F 210.225.2984



records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,



**APPENDIX D**

**AUDITED FINANCIAL STATEMENTS FOR  
YEAR ENDING AUGUST 31, 2019**

# Kirk & Richardson, P.C.

Members of the American Institute of Certified Public Accountants  
Governmental Audit Quality Center

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Denison Independent School District  
1201 South Rusk Avenue  
Denison, Texas 75020

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-13 and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Also included as required supplementary information are the following the following schedules related to the Teacher Retirement System (TRS) of Texas: Schedule of the District's Proportionate Share of the Net Pension Liability – TRS of Texas, Schedule of District Contributions – TRS of Texas, Schedule of the District's Proportionate Share of the Net OPEB Liability – TRS of Texas, Schedule of District Contributions for Other Post-Employment Benefits – TRS of Texas, and the Notes to Required Supplementary Information as reported on pages 64 through 71 respectively. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements and the required Texas Education Agency schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-4, and J-5.

**Other Reporting Required by Government Auditing Standards**

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

*Kirk & Richardson, P.C.*

Kirk & Richardson, P.C.  
Fort Worth, Texas  
November 14, 2019



# DENISON INDEPENDENT SCHOOL DISTRICT

1201 SOUTH RUSK AVENUE  
(903) 462-7000

DENISON, TEXAS 75020-6340  
Fax (903) 462-7002

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## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED AUGUST 31, 2019 UNAUDITED

As management of the Denison Independent School District (the "District"), we offer this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2019. Please read this narrative in conjunction with the independent auditor's report and the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The net position of the District at the close of its fiscal year was \$3,090,896, an increase of \$3,436,659 over last year as a result of current year operations. Unrestricted net position is \$(12,875,519) an increase of \$2,454,659 over last year's balance of \$(15,330,178). Net Investment in Capital Assets is \$12,644,709. The remaining \$3,321,706 is restricted for Federal and State Programs, Debt Service, Campus Activities, and Other Purposes.
- As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$23,561,566 an increase of \$4,041,924 over the prior year. The General Fund increased by \$3,193,752 from current year operations. Other funds had a net increase of \$848,172. The Debt Service Fund increased \$967,634 offset by a decrease of \$(92,520) in the National Breakfast & Lunch Program, \$(13,796) in the Campus Activity Funds, and \$(13,146) in Local Grant Funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$19,813,372 or 46% of total General Fund current year expenditures. Prior year unassigned fund balance for the General Fund was \$16,627,041, or 40% of total General Fund expenditures.
- No new programs were added during the year

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements - These statements provide information about the activities of the District as a whole and present both a long-term and short-term view of the District's finances. The government-wide financial statements include the statement of net position and the statement of activities.

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

The statement of activities presents information on all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (government activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Fund financial statements – These statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. Some funds are required by State law and/or bond covenants. Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants. The District has a blended component unit, which is included because of the significance of its operations or financial relationship with the District. The blended component unit is described below.

- Blended component unit. The Component Unit columns in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Fund Net Position include financial data of The Denison Independent School District Education Foundation, Inc., ("Foundation"). The component unit is fiduciary in nature and as such is included only in the fund financial statements with the District's fiduciary funds. The primary purpose of the Foundation is to generate resources to enhance the quality of education of all students of the District. The Foundation is governed by a board of directors consisting of citizens of the community, District employees, and District board members.

All the funds of the District can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

- Governmental funds – these financial statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.
  - Proprietary funds – these financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the revenues covered the expenses of the goods or services.
  - Fiduciary funds – these financial statements provide information about activities for which the District acts solely as a trustee or agent for the benefit of others, for example, student activity funds and scholarships for graduating students. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's operations.
- Notes to the financial statements - The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide statements and the fund financial statements.

- Other information – This annual report contains other supplementary information in addition to the basic financial statements and the notes to the financial statements. The Management’s Discussion and Analysis is required supplementary information under governmental accounting standards. The “Combining Schedules” for nonmajor funds contain even more information about the District’s individual funds. The “Required Texas Education Agency Schedules” and “Reports on Internal Controls, Compliance and Federal Awards” contain data used by monitoring or regulatory agencies for assurance that the District is using supplied funds in compliance with terms of grants.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following analysis presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table 1) and the statement of activities (Table 2) of the District’s governmental activities.

**Table 1  
Net Position**

	Governmental Activities	
	2019	2018
<b>ASSETS:</b>		
Current and other assets	\$ 29,456,949	\$ 24,484,447
Capital assets	91,173,988	92,206,042
Total assets	<u>120,630,937</u>	<u>116,690,489</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred Charge for Refunding	1,062,588	1,151,137
TRS – Pension	6,787,218	3,020,273
TRS – Other Post Employee Benefits	2,075,096	236,040
Total deferred outflow of resources	<u>9,924,902</u>	<u>4,407,450</u>
<b>LIABILITIES:</b>		
Current liabilities	4,582,527	3,743,867
Long-term liabilities	86,715,579	88,384,714
TRS – Pension (District’s Share)	12,671,035	7,834,199
TRS – Other Post Employee Benefits (District’s Share)	16,923,284	14,229,567
Total liabilities	<u>120,892,425</u>	<u>114,192,347</u>
<b>DEFERRED INFLOW OF RESOURCES:</b>		
TRS – Pension	1,220,968	1,299,100
TRS – Other Post Employee Benefits	5,351,550	5,952,255
Total deferred inflow of resources	<u>6,572,518</u>	<u>7,251,355</u>
<b>NET POSITION:</b>		
Net investment in capital assets	12,644,709	12,564,891
Restricted	3,321,706	2,419,524
Unrestricted	(12,875,519)	(15,330,178)
Total net position	<u>\$ 3,090,896</u>	<u>\$ (345,763)</u>

The District’s governmental activities net position increased by \$3,436,659, as previously discussed, from \$(345,763) to \$3,090,896. A large portion of net position, \$12,644,709 reflects the District’s net investment in capital assets (e.g., land, buildings, furniture and equipment, and accumulated depreciation), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate

these liabilities. An additional portion of the District's net position, \$3,321,706 represents resources that are subject to external restrictions on how they may be used.

**Table 2  
Statement of Activities**

	Governmental Activities	
	2019	2018
<b>REVENUES:</b>		
Program revenues:		
Charges for services	\$ 1,262,916	\$ 1,307,591
Operating grants and contributions	9,792,233	(1,142,564)
General revenues:		
Maintenance and operations taxes	21,025,661	18,580,164
Debt service taxes	5,915,893	5,227,717
State aid – formula grants	20,692,603	21,131,735
Grants and contributions not restricted	1,756,105	959,945
Investment earnings	429,455	276,242
Miscellaneous local & intermediate revenue	561,815	929,116
Total revenues	<u>61,436,681</u>	<u>47,269,936</u>
<b>EXPENSES:</b>		
Instruction & instructional-related services	31,247,764	19,398,737
Instructional & school leadership	2,866,535	1,695,493
Guidance, social work, health, transportation	4,320,918	2,944,453
Food service	3,547,175	2,361,049
Extracurricular activities	2,911,796	2,525,860
General administration	1,696,799	1,129,250
Plant maintenance & security	6,681,306	5,775,003
Data processing services	602,457	508,812
Community services	12,995	12,392
Debt service	3,638,409	3,680,539
Capital outlay	0	0
Other intergovernmental charges	473,868	433,186
Total expenses	<u>58,000,022</u>	<u>40,464,774</u>
Increase/(Decrease) in net position before inflows/ outflows and special items	3,436,659	6,805,172
Net position beginning of year	(345,763)	17,800,524
Prior period adjustment	0	(24,951,459)
Net position end of year	<u>\$ 3,090,896</u>	<u>\$ (345,763)</u>

**Governmental Revenue by Source**

	Governmental Activities	
	2019	2018
<b>Program Revenues:</b>		
Charges for services	2.1%	2.7%
Operating grants and contributions	15.9%	(2.4%)
<b>General Revenues:</b>		
Maintenance & operating taxes	34.2%	39.3%
Debt service taxes	9.6%	11.1%
State aid – formula grants	33.7%	44.7%
Grants and contributions not restricted	2.8%	2.0%
All others	1.7%	2.6%
Total Revenues	<u>100.0%</u>	<u>100.0%</u>



## Governmental Expenses by Function

	Governmental Activities	
	2019	2018
Instruction & instructional-related services	53.9%	47.9%
Instructional & school leadership	4.9%	4.2%
Guidance, social work, health, transportation	7.4%	7.2%
Food service	6.1%	5.8%
Extracurricular activities	5.0%	6.2%
General administration	2.9%	2.8%
Plant maintenance & security	11.5%	14.3%
Data processing services	1.0%	1.3%
Community services	0.0%	0.0%
Debt service	6.3%	9.1%
Capital outlay	0.0%	0.0%
Other intergovernmental charges	1.0%	1.2%
	<u>100.0%</u>	<u>100.0%</u>

The District's net position increased by \$3,436,659 from current fiscal year operations over last year as shown below.

1) Total net change in Fund Balances – Governmental Funds	\$4,041,924
2) Decrease due to internal service fund activities	(35,452)
3) Capital outlays and long-term debt principal	3,298,181
4) Depreciation	(2,750,832)
5) GASB 68 adjustments	(991,759)
6) GASB 75 adjustment	(253,956)
7) Other miscellaneous adjustments	128,553
Total	<u>\$3,436,659</u>

The District is required under GASB 68 and GASB 75 to report its proportionate share of the unfunded liability associated with the Teacher Retirement System of Texas (TRS) pension plan and TRS – other post-employment benefits. The required entries to record the effects of GASB 68 and GASB 75, are book entries only in the statement of governmental activities and do not affect the funding of the District. These entries decreased the District's ending net position and are discussed in greater detail in the notes to the financial statements.

## GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

The District's governmental funds reported a combined ending fund balance of \$23,561,566, a net increase of \$4,041,924 over last year's combined fund balance. Unassigned fund balance is \$19,813,372, or 84.1%, and was available for spending at the District's discretion. The remainder of fund balance is not available for discretionary spending because it is classified as nonspendable, restricted, or committed for the following items:

Nonspendable fund balance:	
Inventories – General Fund	\$ 52,346
Inventories – National Breakfast & Lunch Program	34,927
Prepaid items – General Fund	3,020
Restricted fund balance:	
Federal or state funds grant restrictions	639,094
Retirement of long-term debt	2,643,898
Other restricted – local grants	131,365
Committed fund balance:	
Campus activity funds	243,544

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the General Fund’s unassigned fund balance was \$19,813,372 or 99.7% while the total fund balance was \$19,868,738.

The Debt Service Fund ending fund balance was \$2,643,898, all of which is reserved for the payment of future debt service.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Board of Trustees revised the District’s budget several times. These budget amendments fall into three categories:

1. Amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we originally estimated).
2. Major amendments were to increase Function 34 – Student (Pupil) Transportation by \$399,700 for purchase of new transportation vehicles, Function 51 – Facilities Maintenance & Operations by \$675,000 for various maintenance projects throughout the District, Function 53 – Data Processing Services by \$614,000 to replace District networking system, and Function 81 – Facilities Acquisition & Construction by \$455,000 to resurface indoor practice facilities, roof replacement, and purchase storage building.
3. Amendments to move funds from programs that did not need all the resources originally appropriated to programs with resource needs.

The District’s actual General Fund balance of \$19,868,738 differs from the General Fund’s budgetary fund balance of \$14,789,761. The difference of \$5,078,977 is primarily due to actual local revenues and federal program revenues exceeding the final budget by \$621,920 and \$651,299 respectively with an offset of state program revenues being \$(371,071) less than budget and actual expenditures of \$42,973,331 being less than the final budget by \$4,176,829.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The District’s investments in capital assets for its governmental activities at the end of this fiscal year amounts to \$91,173,988 (net of accumulated depreciation) for a net decrease of \$1,032,054

or 1.1% from last year. Major change in capital assets resulted from purchasing of equipment with an offset of current year depreciation. The investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Major additions for the current year included:

Buses	\$ 525,558
Vehicles	349,394
Buildings & improvement	449,875
Other	417,533
Total additions	<u><u>\$1,742,360</u></u>

More detail information about the District's capital assets is presented in the notes to the financial statements.

#### CAPITAL ASSETS

	2019	2018
Land	\$ 2,462,102	\$ 2,462,102
Buildings & improvements	108,194,728	107,744,853
Furniture & equipment	13,003,968	11,902,484
Less depreciation	<u>(32,486,810)</u>	<u>(29,903,397)</u>
Totals	<u><u>\$ 91,173,988</u></u>	<u><u>\$ 92,206,042</u></u>

At year-end, the District had \$116,309,897 in long-term debt versus \$110,448,480 last year.

#### LONG TERM DEBT

	Governmental Activities	
	2019	2018
Bonds payable	\$ 76,889,561	\$ 77,927,040
Accreted interest	6,828,211	7,305,481
Unamortized premium/(discount)	2,702,306	2,865,248
Compensated absences	295,501	286,945
Net pension liability (District share – TRS)	12,671,035	7,834,199
Net OPEB liability (District share – TRS)	<u>16,923,284</u>	<u>14,229,567</u>
Totals	<u><u>\$116,309,897</u></u>	<u><u>\$110,448,480</u></u>

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2020 budget preparation will be up 245 million, or 12.6% from 2019.
- General operating fund spending per student increases in the 2020 budget from \$10,402 to \$11,318. This is an 8.9% increase.
- The District's 2020 refined average daily attendance is expected to be 4,393, an increase of 63 over 2019.
- These indicators were taken into account when adopting the general fund budget for 2020. Amounts available for appropriation in the general fund budget are \$49.70 million, an increase of 9.9% compared to the final 2019 budget of \$45.26 million. Property tax revenues are expected to increase due to an increase in appraised values while decreasing the tax rate. The tax rate will reduce from \$1.4992 to \$1.3976.

- Expenditures are budgeted at \$49.72 million. Property tax revenue will increase approximately \$500,000 and State Funding will increase approximately \$3,422,365. Investment revenue will increase by approximately \$40,000.

If these estimates are realized, the District's budgetary fund balance in the general fund is expected to decrease by \$493,356 by the close of 2020.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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## **BASIC FINANCIAL STATEMENTS**

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 25,133,651
1220 Property Taxes - Delinquent	1,372,166
1230 Allowance for Uncollectible Taxes	(27,443)
1240 Due from Other Governments	2,881,092
1290 Other Receivables, Net	7,190
1300 Inventories	87,273
1410 Prepayments	3,020
Capital Assets:	
1510 Land	2,462,102
1520 Buildings, Net	86,047,822
1530 Furniture and Equipment, Net	2,664,064
1000 Total Assets	120,630,937
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	1,062,588
1705 Deferred Outflow Related to TRS Pension	6,787,218
1706 Deferred Outflow Related to TRS OPEB	2,075,096
1700 Total Deferred Outflows of Resources	9,924,902
<b>LIABILITIES</b>	
2110 Accounts Payable	1,724,351
2140 Interest Payable	371,122
2160 Accrued Wages Payable	2,218,284
2180 Due to Other Governments	265,170
2300 Unearned Revenue	3,600
Noncurrent Liabilities:	
2501 Due Within One Year	1,111,022
2502 Due in More Than One Year	85,604,557
2540 Net Pension Liability (District's Share)	12,671,035
2545 Net OPEB Liability (District's Share)	16,923,284
2000 Total Liabilities	120,892,425
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	1,220,968
2606 Deferred Inflow Related to TRS OPEB	5,351,550
2600 Total Deferred Inflows of Resources	6,572,518
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	12,644,709
3820 Restricted for Federal and State Programs	674,021
3850 Restricted for Debt Service	2,272,776
3870 Restricted for Campus Activities	243,544
3890 Restricted for Other Purposes	131,365
3900 Unrestricted	(12,875,519)
3000 Total Net Position	\$ 3,090,896

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

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 30,146,920	\$ 168,459	\$ 5,324,293	\$ (24,654,168)
12 Instructional Resources and Media Services	527,925	-	96,590	(431,335)
13 Curriculum and Instructional Staff Development	572,919	-	214,508	(358,411)
21 Instructional Leadership	675,845	-	135,477	(540,368)
23 School Leadership	2,190,690	-	195,830	(1,994,860)
31 Guidance, Counseling and Evaluation Services	2,007,657	-	352,770	(1,654,887)
33 Health Services	412,812	-	32,872	(379,940)
34 Student (Pupil) Transportation	1,900,449	-	104,959	(1,795,490)
35 Food Services	3,547,175	537,655	2,808,609	(200,911)
36 Extracurricular Activities	2,911,796	553,993	48,384	(2,309,419)
41 General Administration	1,696,799	-	118,765	(1,578,034)
51 Facilities Maintenance and Operations	6,364,635	2,809	260,707	(6,101,119)
52 Security and Monitoring Services	316,671	-	59,457	(257,214)
53 Data Processing Services	602,457	-	26,017	(576,440)
61 Community Services	12,995	-	12,995	-
72 Debt Service - Interest on Long-Term Debt	3,632,809	-	-	(3,632,809)
73 Debt Service - Bond Issuance Cost and Fees	5,600	-	-	(5,600)
99 Other Intergovernmental Charges	473,868	-	-	(473,868)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 58,000,022</u>	<u>\$ 1,262,916</u>	<u>\$ 9,792,233</u>	<u>(46,944,873)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			21,025,661
DT	Property Taxes, Levied for Debt Service			5,915,893
SF	State Aid - Formula Grants			20,692,603
GC	Grants and Contributions not Restricted			1,756,105
IE	Investment Earnings			429,455
MI	Miscellaneous Local and Intermediate Revenue			561,815
TR	Total General Revenues			<u>50,381,532</u>
CN	Change in Net Position			3,436,659
NB	Net Position - Beginning			<u>(345,763)</u>
NE	Net Position--Ending			<u>\$ 3,090,896</u>

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



DENISON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 21,013,818	\$ 2,643,898	\$ 1,017,601	\$ 24,675,317
1220 Property Taxes - Delinquent	1,106,513	265,653	-	1,372,166
1230 Allowance for Uncollectible Taxes	(22,130)	(5,313)	-	(27,443)
1240 Due from Other Governments	1,543,342	-	1,337,750	2,881,092
1290 Other Receivables	7,190	-	-	7,190
1300 Inventories	52,346	-	34,927	87,273
1410 Prepayments	3,020	-	-	3,020
1000 Total Assets	<u>\$ 23,704,099</u>	<u>\$ 2,904,238</u>	<u>\$ 2,390,278</u>	<u>\$ 28,998,615</u>
<b>LIABILITIES</b>				
2110 Accounts Payable/Bank Overdrafts	\$ 458,287	\$ -	\$ 1,146,985	\$ 1,605,272
2160 Accrued Wages Payable	2,027,521	-	190,763	2,218,284
2180 Due to Other Governments	265,170	-	-	265,170
2300 Unearned Revenue	-	-	3,600	3,600
2000 Total Liabilities	<u>2,750,978</u>	<u>-</u>	<u>1,341,348</u>	<u>4,092,326</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	1,084,383	260,340	-	1,344,723
2600 Total Deferred Inflows of Resources	<u>1,084,383</u>	<u>260,340</u>	<u>-</u>	<u>1,344,723</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	52,346	-	34,927	87,273
3430 Prepaid Items	3,020	-	-	3,020
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	639,094	639,094
3480 Retirement of Long-Term Debt	-	2,643,898	-	2,643,898
3490 Other Restricted Fund Balance	-	-	131,365	131,365
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	243,544	243,544
3600 Unassigned Fund Balance	19,813,372	-	-	19,813,372
3000 Total Fund Balances	<u>19,868,738</u>	<u>2,643,898</u>	<u>1,048,930</u>	<u>23,561,566</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 23,704,099</u>	<u>\$ 2,904,238</u>	<u>\$ 2,390,278</u>	<u>\$ 28,998,615</u>

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

DENISON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	23,561,566
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		339,255
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$122,109,439 and the accumulated depreciation was \$(29,903,397). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		4,602,526
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 capital outlays and debt principal payments is to increase net position.		3,298,181
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$6,787,218, a deferred resource inflow in the amount of \$1,220,968, and a net pension liability in the amount of \$12,671,035. This resulted in a decrease in net position.		(7,104,785)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$2,075,096, a deferred resource inflow in the amount of \$5,351,550, and a net OPEB liability in the amount of \$16,923,284. This resulted in a decrease in net position.		(20,199,738)
6 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,750,832)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		1,344,723
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>3,090,896</b>

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

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 21,951,820	\$ 6,016,864	\$ 1,171,347	\$ 29,140,031
5800 State Program Revenues	22,718,964	177,138	861,883	23,757,985
5900 Federal Program Revenues	1,496,299	-	5,576,145	7,072,444
5020 Total Revenues	<u>46,167,083</u>	<u>6,194,002</u>	<u>7,609,375</u>	<u>59,970,460</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	24,143,789	-	3,344,123	27,487,912
0012 Instructional Resources and Media Services	391,960	-	70,491	462,451
0013 Curriculum and Instructional Staff Development	335,258	-	191,500	526,758
0021 Instructional Leadership	557,406	-	82,606	640,012
0023 School Leadership	2,044,483	-	3,336	2,047,819
0031 Guidance, Counseling and Evaluation Services	1,686,505	-	203,206	1,889,711
0033 Health Services	384,813	-	64	384,877
0034 Student (Pupil) Transportation	2,067,046	-	-	2,067,046
0035 Food Services	-	-	3,411,170	3,411,170
0036 Extracurricular Activities	1,816,478	-	364,046	2,180,524
0041 General Administration	1,607,359	-	-	1,607,359
0051 Facilities Maintenance and Operations	6,176,523	-	-	6,176,523
0052 Security and Monitoring Services	279,745	-	45,300	325,045
0053 Data Processing Services	558,223	-	-	558,223
0061 Community Services	-	-	12,995	12,995
Debt Service:				
0071 Principal on Long-Term Debt	-	1,037,479	-	1,037,479
0072 Interest on Long-Term Debt	-	4,183,289	-	4,183,289
0073 Bond Issuance Cost and Fees	-	5,600	-	5,600
Capital Outlay:				
0081 Facilities Acquisition and Construction	449,875	-	-	449,875
Intergovernmental:				
0099 Other Intergovernmental Charges	473,868	-	-	473,868
6030 Total Expenditures	<u>42,973,331</u>	<u>5,226,368</u>	<u>7,728,837</u>	<u>55,928,536</u>
1200 Net Change in Fund Balances	3,193,752	967,634	(119,462)	4,041,924
0100 Fund Balance - September 1 (Beginning)	<u>16,674,986</u>	<u>1,676,264</u>	<u>1,168,392</u>	<u>19,519,642</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 19,868,738</u>	<u>\$ 2,643,898</u>	<u>\$ 1,048,930</u>	<u>\$ 23,561,566</u>

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

DENISON INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	4,041,924
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.</p>		
		(35,452)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.</p>		
		3,298,181
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(2,750,832)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.</p>		
		128,553
<p>GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$816,272. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$777,341. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$1,030,690. The net result is a decrease in the change in net position.</p>		
		(991,759)
<p>GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$249,687. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$233,812. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$269,831. The net result is a decrease in the change in net position.</p>		
		(253,956)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>3,436,659</b>

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

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2019

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 458,334
Total Assets	458,334
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	119,079
Total Liabilities	119,079
<b>NET POSITION</b>	
Unrestricted Net Position	339,255
Total Net Position	\$ 339,255

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

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 134,226
Total Operating Revenues	134,226
OPERATING EXPENSES:	
Professional and Contracted Services	169,678
Total Operating Expenses	169,678
Operating Income (Loss)	(35,452)
Total Net Position - September 1 (Beginning)	374,707
 Total Net Position - August 31 (Ending)	 \$ 339,255

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

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DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 134,226
Cash Payments for Insurance Claims	(154,791)
Net Cash Used for Operating Activities	(20,565)
Net Decrease in Cash and Cash Equivalents	(20,565)
Cash and Cash Equivalents at Beginning of Year	478,899
Cash and Cash Equivalents at End of Year	\$ 458,334
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (35,452)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	14,887
Net Cash Used for Operating Activities	\$ (20,565)

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



DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2019

	Private Purpose Trust Fund	Agency Fund	Fiduciary Component Unit
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 43,696	\$ 255,858	\$ 2,653,016
Total Assets	<u>43,696</u>	<u>\$ 255,858</u>	<u>2,653,016</u>
<b>LIABILITIES</b>			
Accounts Payable	-	\$ 8,823	-
Due to Student Groups	-	247,035	-
Total Liabilities	<u>-</u>	<u>\$ 255,858</u>	<u>-</u>
<b>NET POSITION</b>			
Restricted for Scholarships	43,696		-
Unrestricted Net Position	-		2,653,016
Total Net Position	<u>\$ 43,696</u>		<u>\$ 2,653,016</u>

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

DENISON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Private Purpose Trust Fund	Fiduciary Component Unit
<b>ADDITIONS:</b>		
Local and Intermediate Sources	\$ 10,300	\$ 347,288
Total Additions	<u>10,300</u>	<u>347,288</u>
<b>DEDUCTIONS:</b>		
Professional and Contracted Services	13,751	-
Supplies and Materials	-	79,130
Other Operating Costs	-	112,053
Total Deductions	<u>13,751</u>	<u>191,183</u>
Change in Net Position	(3,451)	156,105
Total Net Position - September 1 (Beginning)	<u>47,147</u>	<u>2,496,911</u>
Total Net Position - August 31 (Ending)	<u>\$ 43,696</u>	<u>\$ 2,653,016</u>

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

## **I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements presented for the Denison Independent School District (the “District”) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). It also complies with the requirements of the appropriate version of the Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The following is a summary of the most significant accounting policies.

### **A. Reporting Entity**

The District’s Board of Trustees (the “Board”), consisting of seven members, has governance responsibilities over all activities related to public school education within the District. The daily functioning of the District is under the supervision of the Superintendent. Board members are elected by the public, have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by Governmental Accounting Standards Board (GASB) in its *Statement No. 14, The Financial Reporting Entity*. The accompanying financial statements present the District’s financial statements and those of a blended component unit, which is included because of the significance of its operations or financial relationship with the District. The blended component unit is described below.

- Blended component unit. The Component Unit columns in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Fund Net Position include financial data of The Denison Independent School District Education Foundation, Inc., (“Foundation”) a component unit of the District. The component unit is fiduciary in nature and as such is included only in the fund financial statements with the District’s fiduciary funds. The primary purpose of the Foundation is to generate resources to enhance the quality of education of all students of the District. The Foundation is governed by a board of directors consisting of citizens of the community, District employees, and District board members.

### **B. Basis of Presentation – Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District does not have business-type activities.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The “charges for services” column include payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The “grants and contributions” column includes amounts paid by organizations outside the District to help meet the operational or

capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

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

### **C. Basis of Presentation - Fund Financial Statements**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures. The fund statements are prepared on a current financial resources measurement focus and the modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and the basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

The District reports the following major government funds:

**The General Fund**— The General Fund is the District's general operating fund. It is used to account for all financial transactions except for those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the District except for costs incurred by programs accounted for in other funds. The General Fund is always considered a major fund as defined by GASB 34.

**Debt Service Fund** – This fund, which is a budgeted fund, accounts for the resources accumulated and payments made on long-term general obligation debt of governmental funds. Revenues include collections of general property taxes, state funding under the Instructional Facilities and Existing Debt Allotments, and earnings on investments of the fund. Expenditures of the fund are for the retirement of bonds and payments of interest on the bonded debt. The fund balance represents the amount that is available for the retirement of bonds and payment of interest in the future.

In addition, the District maintains the following funds:

**Governmental Funds:**

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

The District's Food Service Fund (National Breakfast and Lunch Program) is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Breakfast and Lunch Program, (2) the General Fund subsidizes the Food Service Program for all expenditures in excess of the National Breakfast and Lunch Program, and (3) the District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes. This is a budgeted fund.

**The Capital Projects Fund** – This fund, which is an unbudgeted fund, is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction, renovations, and technology projects/enhancements. The District does not have a Capital Projects Fund.

**Proprietary Funds:**

**Internal Service Funds** – These funds are conceived to be self-supporting. Revenues are earned mainly from sales of services to the schools and operating departments of the District. The District uses this fund type to report its workers' compensation activities.

**Fiduciary Funds:**

**Private-purpose Trust Fund** – This fund is used to account for all trust agreements under which the principal and income benefit a specific school or group of students.

**Fiduciary Funds – Agency Funds** – The Agency Fund is custodial in nature and accounts for activities of student groups and other types of activities requiring clearing accounts. The fund has no equity. Assets are equal to liabilities and do not include revenues and expenditures for general operations of the District. This accounting reflects the District's agency relationship with student activity organizations. Fiduciary funds use the accrual basis of accounting to recognize assets and liabilities.

**Fiduciary Component Unit** - The component unit fund is used to account for the Denison Independent School District Education Foundation, Inc., an organization formed to provide financial assistance to the District.

The District does not have any business-type funds or permanent funds.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment are determined by the applicable measurement focus and the basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the “susceptible to accrual” concept, that is, when they are both measurable and available. The District considers them “available” if the will be collected within 60 days of the end of the fiscal year. Property taxes received after the 60-day period are not considered available and, therefore, are recorded as the deferred inflow of resources in the Governmental Funds Balance Sheet. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available.

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

### **Management’s 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 estimations and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

The amount of state foundation revenue and the related receivables and liabilities a district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year.

**E. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position or Fund Balances**

1. Cash and Cash Equivalents - The District's cash and cash equivalents are considered as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments considered as cash equivalent are reported at fair value.
2. Investments - Investments are recorded at fair value. Investments are considered and classified as cash equivalents. Investments are primarily in FDIC insured investments, savings accounts, and public funds money markets and are not significantly affected by the impairment of the credit standing of the issues or other factors.
3. Inventories and Prepaid Items - The District uses the consumption method to account for inventories of food products, school supplies, and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. In the General Fund, reported inventories are offset by a fund balance reserve. Inventories of food commodities used in the food service program are recorded at fair market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as a prepayment in both government-wide and fund financial statements.

4. Other Receivables and Payables - These may include amounts due from local, state and federal agencies resulting from an excess of expenditures over revenues incurred, accrued liabilities, interest payable, and accrued wages payable.
5. Interfund Activities - During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

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

6. Encumbrances - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve a portion of the applicable appropriation, is employed in the governmental

fund types on the governmental fund financial statements. Encumbrances are liquidated at year-end.

7. Capital Assets - Capital assets, which include land, buildings and improvements, furniture and equipment and construction in progress, are reported in the applicable governmental column in the government-wide financial statements. The cost of the infrastructure (e.g., roads, bridges, sidewalks, and similar items) was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at an estimated fair value at the date of donation.

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

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

Asset Classification	Useful Life
Buildings and improvements	45
Furniture & equipment	5-10

Land and construction in progress are not depreciable.

8. Unearned Revenues - Unearned revenues represent revenues received by the District but not yet earned and are not available for use by the District to liquidate current year liabilities. A summary of unearned revenues by fund follows:

Special Revenue Funds:	
Teacher Training Reimbursement	\$3,600

9. Long-term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activity, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Deferred loss on refunding, will be recognized as a deferred outflow of resources and amortized to interest expense over the life of the bonds. Bond issuance costs are expensed in the current period.

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



10. Deferred Outflows/Inflow of Resources - In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District had the following deferred outflows of resources:

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. During the current year, the District had \$1,062,588 in deferred charges for refunding.
- Deferred outflows of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actuarial experience. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. During the current year, the District had \$6,787,218 deferred outflow related to TRS from implementing GASB 68. This amount consisted of \$5,970,946 for total net amounts per TRS August 31, 2018 measurement date and \$816,272 for contributions paid to TRS subsequent to the measurement date.
- Deferred outflow of resources related to TRS OPEB – Reported in the government-wide financial statement of net position, this deferred outflow results related to TRS OPEB contributions made after the measurement date of the net pension liability and the results of differences between expected and actuarial experience. The deferred outflows of resources related to TRS OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net TRS OPEB liability in the next fiscal year. During the current year, the District had \$2,075,096 deferred outflow related to TRS OPEB as a result of GASB 75. This amount consisted of \$1,825,409 for total net amounts per TRS OPEB August 31, 2018 measurement date and \$249,687 for contributions paid to TRS OPEB subsequent to the measurement date.

In addition to liabilities, the District will sometimes report a separate section for deferred inflow of resources. A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District had three items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, for unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of revenues in the period that the amounts become available. During the current year, the District recorded deferred inflow of resources \$1,084,383

and \$260,340 as unavailable revenues – property taxes with the General Fund and Debt Service Fund respectively.

- Deferred inflow of resources for pensions – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. During the current year, the District recorded \$1,220,968 for total net amounts per TRS August 31, 2018 measurement date as a result of implementing GASB 68.
  - Deferred inflow of resources related to TRS OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on TRS OPEB investments. During the current year, the District recorded \$5,351,550 for total net amounts per TRS OPEB August 31, 2018 measurement date in accordance with GASB 75.
11. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
12. Net Position Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. When both restricted and unrestricted resources are available for use in a specific program or for a specific purpose, the District's normal policy is to use the restricted resource to finance its activities.

The Government-wide Statement of Net Position includes the following:

Net investment in capital assets - the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted for federal and state Programs – the component of net position that reports the difference between assets and liabilities related to federal and state programs that consist of assets with constraints placed on their use by granting agencies.

Restricted for debt service – the component of net position that reports the difference between assets and liabilities adjusted on a government-wide basis that consists of assets with constraints placed on their use by the bond covenants.

Restricted for capital projects – funds that have been assigned for future expenditures for equipment. The District does not have any funds restricted for capital projects.

Restricted for campus activities – funds that have been committed solely for the use by various campuses within the District.

Restricted for other purposes – funds that have been designated by the District to classify locally funded grants.

Unrestricted net position - the difference between the assets and liabilities that are not reported in net investment in capital assets or restricted net position.

13. Fund Balance Flow Assumptions – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by assigned fund balance. The unassigned fund balance is applied last.
14. Fund Balance Policies - In the fund financial statements, government funds report fund balances as either a non-spendable fund balance or a spendable fund balance.

Non-spendable fund balance – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.

Spendable fund balance – Spendable fund balance includes restricted, committed, assigned, and unassigned components. These components can be described as follows:

Restricted fund balance – the component of the spendable fund balance constrained to a specific purpose by a provider, such as a creditor, grantor, contributor, or law or regulation of other governments. Restricted fund balance includes funds for federal/state grants, long-term debt service, and other restrictions.

Committed fund balance – the component of spendable fund balance constrained to a specific purpose by the Board. A Board resolution is required to establish, modify, or rescind a fund balance commitment. Only the action that constitutes the most binding constraint of the Board can be considered a commitment for fund balance classification purposes. Committed fund balance includes funds for campus activity funds.

Assigned fund balance – the component of the spendable fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the Board of Trustees or by an official or body to which the Board of Trustees delegates. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is a specific purpose that is narrower than the general purposes of the District itself. The District does not have assigned fund balances.

Unassigned fund balance – is the residual classification of the General Fund and includes all amounts not contained in other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures. Only the General Fund will have unassigned amounts. By accounting for amounts in other funds, the District has implicitly assigned the funds for purposes of those particular funds.

Disclosure of Fund Balances Reported on Balance Sheet – Governmental Funds  
 For Fiscal Year Ending August 31, 2019

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Nonspendable Fund Balance:				
Inventories	\$ 52,346	\$ 0	\$ 34,927	\$ 87,273
Prepaid items	3,020	0	0	3,020
Restricted Fund Balance:				
Nat'l School Breakfast & Lunch Program				
	0	0	639,094	639,094
Retirement of long-term debt	0	2,643,898	0	2,643,898
Other restricted – local grants	0	0	131,365	131,365
Committed Fund Balance				
Campus Activity Funds	0	0	243,544	243,544
Unassigned	19,813,372	0	0	19,813,372
Total Fund Balance	<u>\$19,868,738</u>	<u>\$2,643,898</u>	<u>\$1,048,930</u>	<u>\$23,561,566</u>

The District does not have a minimum fund balance policy.

15. Data Control Codes - The data control codes refer to the account code structure prescribed by the Texas Education Agency (the “Agency”) in the Financial Accountability System Resource Guide. The Agency requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

**F. Implementation of New Standards**

No new standards were implemented during the year.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.**

Exhibit C-2 “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position” provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. Also, the property taxes receivable which is included as unavailable revenue in the fund financial statements are adjusted based on when the tax levy was made and adjusted for uncollectible amounts. Also included are all of the adjustments required by GASB 68 and GASB 75.

Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities” provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The debt payments on retirement of debt are recorded as expenditures for fund-basis financial statements but are a reduction of debt in the government-wide financial statements. The capital asset additions are expenditures in the fund-basis financial statements but capitalized in the government-wide financial statements. The fund-basis financial statements do not include depreciation expense. The depreciation expense is a deduction to reconcile to the government-wide statement of activities. New debt issues are treated as sources of revenue for fund-basis financial statements, but for the government-wide statements, those amounts are recorded as a liability. Property taxes are adjusted for the accrual basis and the unavailable revenues are adjusted based on prior year levies and current year uncollectable amounts. Also included are all of the adjustments required by GASB 68 and GASB 75.

### **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **A. Budgets and Budgetary Accounting**

The Board of Trustees adopts an “appropriated budget” for the General Fund, Child Nutrition Program, and the Debt Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The general fund budget report appears in Exhibit G-1 “Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund” and the other two reports are in Exhibit J-4 “Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - Child Nutrition Program” and J-5 “Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - Debt Service Fund”.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notices of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can be amended at the function and fund level by approval of a majority of the members of the Board. Changes can be made to the budget at any detail within the function level without an amendment approved by the Board. During the year, several budget amendments were made with Board approval. The most significant amendments were for carryover funding; mid-year adjustment of operating

costs; and year-end adjustments to expenditures based on the latest information concerning operating cost. All budget appropriations lapse at year-end.

	Original Budget	Increase (Decrease)	Amended Budget
	<u>Appropriations</u>	<u>(Decrease)</u>	<u>Appropriations</u>
General Fund – Exhibit G-1	\$45,044,460	\$2,105,770	\$47,150,160
Child Nutrition Program – Exhibit J-4	3,364,800	100,000	3,464,800
Debt Service Fund – Exhibit J-5	5,225,780	2,000	5,227,780

4. General Fund – Major amendments were to increase Function 34 – Student (Pupil) Transportation by \$399,700 for purchase of new transportation vehicles, Function 51 – Facilities Maintenance & Operations by \$675,000 for various maintenance projects throughout the District, Function 53 – Data Processing Services by \$614,000 to replace District networking system, and Function 81 – Facilities Acquisition & Construction by \$455,000 to resurface indoor practice facilities, roof replacement, and purchase storage building.
5. Each budget is controlled at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2019 Fund Balance	
Appropriated Budgeted Funds – National Breakfast & Lunch Program	\$ 674,021
Non-appropriated Budgeted Funds	<u>374,909</u>
All Special Revenue Funds	<u>\$1,048,930</u>

**B. Excess of Expenditures over Appropriations**

No excess of expenditures over appropriations existed for the year ended August 31, 2019.

**C. Deficit Fund Equity**

There were no deficit fund equities for the year ended August 31, 2019.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Cash Equivalents**

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

Depository information is as follows:

- Depository bank: Independent Bank
- Highest combined balance: \$22,200,730

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- Date of highest combined balance: February 20, 2019
- Amount of FDIC insurance: \$250,000
- Amount of pledged securities: \$24,010,142

Since the District complies with this law, it has no custodial credit risk for deposits.

The District's cash and cash equivalents, considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

At August 31, 2019, the carrying value of the District's deposits was \$4,274,344, excluding petty cash of \$9,916 and \$16,428,402 of investments considered as cash equivalents, and the bank balance was \$5,184,102. The District's cash deposits at August 31, 2019, and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Governmental Funds:	
Petty cash	\$ 10,327
Cash-in-bank	4,638,620
Investments considered as cash equivalents	20,026,370
Total cash and cash equivalents	<u>24,675,317</u>
Proprietary Funds:	
Cash-in-bank	458,334
Total Governmental Activities	<u>\$24,845,100</u>

The following investments are considered as cash equivalents:

Investments	Carrying Amount	Fair Value	Percentage of Investments	Weighted Average Maturity (Days)
Savings accounts	\$ 376,871	\$ 376,871	1.9%	On demand
Texpool - AAAM	13,015,316	13,015,316	65.0%	On demand
Lone Star - AAA	5,095,846	5,095,846	25.4%	On demand
Texas Term – AA Af	105	105	0.0%	On demand
Money market funds	1,538,232	1,538,232	7.7%	On demand
Totals	<u>\$20,026,370</u>	<u>\$20,026,370</u>	<u>100.0%</u>	

The District does not have any cash or cash equivalents in foreign currency; therefore, there is no foreign currency risk.

**The Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of returns, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. The District maintains an investment policy which authorizes the District to invest in obligations of U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements and the State Treasurer's investment pool or similar public investment pools. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

**Custodial Credit Risk – Investments** - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investment is not exposed to custodial risk. External investment pools are not subject custodial risk because investments are not evidenced by securities that exist in physical or book entry form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service. District investments are not exposed to custodial credit risk.

**Credit Risk** – This is the risk that a security issuer may default on interest or principal payment. State law limits investment in local government pools to those that are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor's (S&P) or Moody's Investors Service, or by investing in public fund investment pools rated no lower than AAA or AAAM.

**Interest-rate Risk** – This type of risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The District's investment policy does not allow the purchase of investments that would expose the District to interest-rate risk.

**Concentration of Credit Risk** – This type of risk is defined as positions of 5 percent or more in securities of a single issuer. The District is not exposed to the concentration of credit risk because the investment portfolio mainly consists of external investment pools.

**Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

## **B. Property Taxes**

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

The Board establishes the District's property tax rates annually. The authorized tax rates for property taxes assessed on January 1, 2018, were \$1.170000 and \$0.329200 per \$100 for the General Fund and Debt Service Fund, respectively, based on a net assessed valuation of \$1,798,602,998.

The District has not entered into any tax abatement agreements in compliance with Tax Code Chapter 312.



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Delinquent taxes are prorated between the General Fund and Debt Service Fund based rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes.

Delinquent taxes receivables and the related allowance for uncollectible taxes in the governmental fund financial statements as of August 31, 2019, are as follows:

	Property Taxes - Delinquent	Allowance for Uncollectible Taxes	Unavailable Revenue – Property Taxes
General Fund	\$1,106,513	\$(22,130)	\$1,084,383
Debt Service Fund	265,653	(5,313)	260,340
Totals	<u>\$1,372,166</u>	<u>\$(27,443)</u>	<u>\$1,344,723</u>

Current tax collections for the levy year ended August 31, 2019, were 97.9% of the year-end adjusted tax levy.

Uncollectible personal property taxes are periodically reviewed and written off by the District. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The District has an agreement with Grayson County Tax Office (“County”) whereby the County bills and collects the District’s property taxes.

**C. Disaggregation of Receivables and Payables**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables that are not scheduled for collection within one year of August 31, 2019.

**D. Receivables from Other Governments**

Receivables from other governments, as of August 31, 2019, are as follow:

	Due from State
General Fund	\$1,543,342
Special Revenue Funds:	
Head Start	77,327
ESEA I, A – Improving Basic Programs	402,600
IDEA – Part B Formula	580,135
IDEA – Part B Preschool	13,186
National Breakfast & Lunch Program	143,970
ESEA II, A – Training & Recruiting	45,667
Title IV, Part A – Subpart I	69,978
State Instructional Materials	4,887
Total	<u>\$2,881,092</u>

**E. Interfund Receivables and Payables**

There were no interfund receivables and payables as of August 31, 2019.

**F. Interfund Transfers**

There were no interfund transfers during the fiscal year.

**G. Other Financing Sources (Uses)**

There were no other financing sources and (uses) during the year:

**H. Special Items/Extraordinary Items**

There were no special items/extraordinary items during the fiscal year.

**I. Operating Leases**

The District leases office equipment and automobiles under noncancelable operating leases. Total costs for such leases were \$90,828 for the year. The future minimum lease payments for active operating leases are summarized below:

Year Ending August 31	Amount
2020	\$43,996
2021	13,203
2022	13,203
2023	1,949
Thereafter	0

**J. Capital Asset Activity**

Capital asset activity for the year ended August 31, 2019, is as follows:

	Beginning Balance	Increases/ Adjustments	Decreases/ Adjustments	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,462,102	\$ 0	\$ 0	\$ 2,462,102
Construction in Progress	0	0	0	0
Total Capital Assets, not being depreciated	2,462,102	0	0	2,462,102
Capital assets, being depreciated:				
Buildings and improvements	107,744,853	449,875	0	108,194,728
Furniture and equipment	11,902,484	1,292,485	191,001	13,003,968
Total capital assets, being depreciated	119,647,337	1,742,360	191,001	121,198,696
Less accumulated depreciation for:				
Buildings and improvements	20,200,263	1,946,643	0	22,146,906
Furniture and equipment	9,703,134	804,189	167,419	10,339,904
Total accumulated depreciation	29,903,397	2,750,832	167,419	32,486,810
Governmental activities capital assets, net	\$ 92,206,042	\$(1,008,472)	\$ 23,582	\$ 91,173,988

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Major additions for the current year included:

Buses	\$ 525,558
Vehicles	349,394
Buildings & improvement	449,875
Other	417,533
Total additions	<u>\$1,742,360</u>

Decrease in assets is result of the District disposing of several vehicles and equipment during the year.

Depreciation expense was charged to governmental functions of the District as follows:

**Governmental activities:**

11 – Instruction	\$1,042,874
12 – Instruction Resources & Media Services	40,835
13 – Curriculum & Instructional Staff Development	13,388
23 – School Leadership	18,337
31 – Guidance, Counseling & Evaluation Services	7,440
33 – Health Services	6,616
34 – Student (Pupil) Transportation	410,237
35 – Food Services	192,883
36 – Extracurricular Activities	705,153
41 – General Administration	19,723
51 – Plant Maintenance & Operations	196,897
52 – Security & Monitoring Services	35,414
53 – Data Processing Services	61,035
Total Depreciation Expense	<u>\$2,750,832</u>

**K. Long-Term Debt**

Long-term debt of the District is comprised of bonds payable, accreted interest, the premium on bonds, compensated absences, and net pension liability. Debt service requirements for general obligation bonds are payable from the fund balance and future revenues of the Debt Service Fund which consists principally of property taxes collected by the District, state funding, and interest earnings. Capital leases are paid from the fund balance and future revenues of the General Fund.

The following is a summary of changes in long-term debt for government activities for the year ended August 31, 2019.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$ 77,927,040	\$ 0	\$1,037,479	\$ 76,889,561	\$1,111,022
Accreted interest	7,305,481	810,250	1,287,520	6,828,211	0
Premium on bonds	2,865,248	0	162,942	2,702,306	0
Compensated absences	286,945	8,556	0	295,501	0
Sub-total	88,384,714	818,806	2,487,941	86,715,579	1,111,022
Net pension liability	7,834,199	5,612,338	775,502	12,671,035	0
Net OPEB liability	14,229,567	2,927,533	233,816	16,923,284	0
Total	<u>\$1110,448,480</u>	<u>\$9,358,677</u>	<u>\$3,497,259</u>	<u>\$116,309,898</u>	<u>\$1,111,022</u>

**L. Bonds Payable**

Bonded indebtedness of the District is reflected in the statement of net position. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in the fund financial statements.

A summary of changes in general obligation bonds for the year ended August 31, 2019, is as follows:

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
Series 1997 UTSB&R Bonds/2021	4.3%/6.0%	\$13,224,677	\$ 1,175,439	\$0	\$ 430,956	\$ 744,483	\$406,212
Series 2011 UTSB Bonds/2041	1.75%/5.0%	69,001,362	59,841,601	0	371,523	59,470,078	459,810
Series 2013 UTSB Bonds/2043	1.75%/4.5%	9,410,000	8,280,000	0	235,000	8,045,000	245,000
Series 2017 UTR Bonds/2031	4.0%	8,630,000	8,630,000	0	0	8,630,000	0
Totals			<u>\$77,927,040</u>	<u>\$ 0</u>	<u>\$1,037,479</u>	<u>\$76,889,561</u>	<u>\$1,111,022</u>

The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds.

Year Ended August 31	Principal	Interest	Total Requirements
2020	\$ 1,111,022	\$ 4,252,696	\$ 5,363,718
2021	1,267,933	4,233,436	5,501,369
2022	1,923,160	3,675,709	5,598,869
2023	1,886,208	3,809,861	5,696,069
2024	1,850,225	3,941,568	5,791,793
2025-2029	10,411,013	19,805,008	30,216,021
2030-2034	20,065,000	11,681,956	31,746,956
2035-2039	26,125,000	6,263,206	32,388,206
2040-2044	12,250,000	789,112	13,039,112
Totals	<u>\$76,889,561</u>	<u>\$58,452,552</u>	<u>\$135,342,113</u>

Interest and fees paid on general obligation bonds during the year were \$4,188,889.

There are numerous limitations and restrictions contained in the various general obligation bond indentures. The District has complied with all significant limitations and restrictions as of August 31, 2019.

**M. Defeasance of Debt**

During the current year, the District issued refunding bonds for the purpose of restructuring debt cash flow requirements. Proceeds from the refunding bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. The old bonds are considered

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deceased, and accordingly, the trust account assets and liabilities are not included in the District's financial statements. On August 31, 2019, \$8,665,000 of bonds considered deceased are still outstanding.

**N. Revenue from Local and Intermediate Sources**

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

	General Fund	Debt Service Fund	Other Funds	Totals
Property taxes	\$20,932,281	\$5,886,628	\$ 0	\$26,818,909
Food sales	0	0	537,658	537,658
Penalties, interest & other tax related income	256,021	62,940	0	318,961
Tuition & fees	5,966	0	0	5,966
Earnings – temporary deposits & investments	362,159	67,296	49,262	478,717
Rent	2,809	0	0	2,809
Foundations, gifts & bequests	0	0	161,846	161,846
Insurance recovery	98,680	0	0	98,680
Other revenues from local sources	139,033	0	23,459	162,492
Athletics	145,988	0	30,617	176,605
Extracurricular activities other than athletics	8,883	0	34,865	43,748
Enterprising services revenues	0	0	333,640	333,640
Total	<u>\$21,951,820</u>	<u>\$6,016,864</u>	<u>\$1,171,347</u>	<u>\$29,140,031</u>

**O. State Aid Revenue**

The District receives state revenues from TEA based upon application of formula allocations, on-behalf allocations, and other state miscellaneous programs. The components of state program revenues as shown in the governmental fund financial statements are as follows:

	General Fund	Debt Service Fund	Other Funds	Totals
Per Capita Apportionment	\$ 2,027,092	\$ 0	\$ 0	\$ 2,027,092
Foundation School Prg. Act Entitlements	18,568,479	0	0	18,568,479
Other Foundation School Prg. Act Revenues	97,032	0	0	97,032
State Program Revenues Distributed by TEA	0	177,138	787,870	965,008
TRS On-behalf Payments	1,875,143	0	68,550	1,943,693
TRS Medicare Part-D	103,800	0	5,463	109,263
Other State Revenue	47,418	0	0	47,418
Totals	<u>\$22,718,964</u>	<u>\$177,138</u>	<u>\$861,883</u>	<u>\$23,757,985</u>

**P. Federal Program Revenues**

The District receives federal program revenues for various programs as follows:

Revenues	General Fund	Other Funds
School Health & Related Services (SHARS)	\$1,442,950	\$ 0
U. S. Department of Defense - Direct	53,349	0
U. S. Department of Education – Direct	0	55,337
U. S. Department of Education – Passed Through	0	2,719,837
U. S. Department of Health & Human Services – Passed Through	0	232,500
U. S. Department of Agriculture – Passed Through	0	2,568,473
Totals	<u>\$1,496,299</u>	<u>\$5,576,147</u>

**Q. Employee Benefits**

**Compensated Absences**

Employees of the District earn and accumulate leave according to terms set by the State of Texas at the rate of five (5) days per year. If employees retire from the District and are eligible for full retirement benefits as determined by the Teachers’ Retirement System, the District pays the employees one-half of their regular rate of pay for up to 50 days of unused sick leave.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

The activity within the accrued compensated absences account follows:

Balance, September 1	\$286,944
Net change	<u>8,557</u>
Balance, August 31	<u>\$295,501</u>

**R. Defined Benefit Pension Plan**

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

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

**Pension Plan Fiduciary Net Position** - Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial

Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**Benefits Provided** - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension benefits are based on statutory provisions of the plan effective for the fiscal year 2018. The annual standard annuity is based on the average of the five highest annual creditable salaries multiplied by the years of credited service multiplied by 2.3 percent. For members who are grandfathered, the three highest annual salaries are used in the benefit formula. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on the date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan Description above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year Employer Contributions	\$816,272	
Current fiscal year Member Contributions	\$2,257,376	
2018 measurement date NECE On-behalf Contributions	\$1,478,305	

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times

the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (including public schools) are required to pay the employer contribution rate in the following instances:

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

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

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

***Actuarial Assumptions***

**Roll Forward** – A change was made in the measurement date of the total pension liability for the 2018 measurement year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total pension liability to August 31, 2018. This is the first year using the roll forward procedures.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The active mortality rates were based on 90 percent of the RP 2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pension Mortality Tables.

The following table discloses the assumptions that were applied in this measurement period.

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August, 2018	3.69% - Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported to Fidelity Index's "20-Year Municipal GO AA Index."



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Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30 %
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post-employment Benefit Changes	None

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

**Discount Rate** – The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.89%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
<b>Stable Value</b>			
U. S. Treasuries	14%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Stable Value Hedge Funds	4%	3.09%	0.12%
Cash	1%	-0.30%	0.00%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
<b>Risk Parity</b>			
Risk Parity	5%	3.70%	0.18%
Inflation Expectations			2.30%
Volatility Drag***			(0.79)
<b>Total</b>	<b>100%</b>		<b>7.25%</b>

- \* Target Allocations are based on the FY 2016 policy model
- \*\* Capital market assumptions are the same from Aon Hewitt (2017 Q4)
- \*\*\* The Expected Contribution to Long-term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

**Discount Rate Sensitivity Analysis** - The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	\$19,123,631	\$12,671,035	\$7,447,277

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At August 31, 2019, the District reported a liability of \$12,671,035 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$12,671,035
State's proportionate share that is associated with District	24,169,278
Total	<u>\$36,840,313</u>

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

On August 31, 2018, the District's proportion of the collective net pension liability was 0.0230204880% which was a decrease of 0.0014808233% from the proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation** – Assumptions, methods, and plan changes that are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions.

- The total pension liability as of August 31, 2018, was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experienced study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants were updated based on the same experience study.

- The discount rate changed from 8.0 percent as of August 31, 2017, to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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

For the year ended August 31, 2019, the District recognized pension expense of \$4,200,145 and revenue of \$2,392,114 for support provided by the State in the Government-Wide Financial Statement of Activities.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 78,981	\$ 310,897
Changes in actuarial assumptions	4,568,519	142,766
Net difference between projected and actual investment earnings	0	240,423
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,323,446	526,882
Total as of August 31, 2018 measurement date	<u>5,970,946</u>	<u>1,220,968</u>
Contributions paid to TRS subsequent to the measurement date	816,272	0
Total	<u><u>\$6,787,218</u></u>	<u><u>\$1,220,968</u></u>

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2020	\$1,363,635
2021	857,682
2022	705,157
2023	707,453
2024	666,258
Thereafter	449,793

#### S. Defined Other Post-Employment Benefit Plans

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2018, are as follows:

Net OPEB Liability	Total
Total OPEB Liability	\$50,729,490,103
Less: plan fiduciary net position	798,574,633
Net OPEB liability	<u>\$49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

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

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and their dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The 85th Legislature, Regular Session, passed the following statutory changes in HB 3976 which became effective on September 1, 2017. These are described below under the section “Changes in Benefit Terms”.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage. These new premium rates for retirees with Medicare Parts A&B coverage became effective January 1, 2018.

TRS-Care Monthly Premium Rates Effective January 1, 2018 – December 31, 2018		
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$ 135	\$200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

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

Texas Insurance Code, Section 1575.202 establishes the state’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee’s pay for the fiscal year 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

<b>Contribution Rates</b>		
	2018	2019
Active Employee	0.65%	0.65%
Non-employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year Employer Contributions		\$249,687
Current fiscal year Member Contributions		\$190,560
2018 measurement year NECE On-Behalf Contributions		\$330,837

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

With Senate Bill 1, 85<sup>th</sup> Legislature, Regular Session, TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in the fiscal year 2018. House Bill 30 of the 85<sup>th</sup> Legislature provided an additional \$212 million in a one-time supplemental funding for the fiscal year 2018-2019 biennium. One-time supplemental contributions during fiscal 2018 total \$394.6 million.

**Actuarial Assumptions** – The total OPEB liability in the August 31, 2017, actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017, TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69% - Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in the Fidelity Index’s “20-Year Municipal GO AA Index: as of August 31, 2018

DENISON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 AUGUST 31, 2019

Exhibit F-1

Aging Factors	Based on Plan Specific Experience
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% - 9.05%
Ad-hoc Post Employment Benefit Changes	None

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

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

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

**Discount Rate** – A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of .27 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was adopted for all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Net OPEB Liability:**

**Discount Rate Sensitivity Analysis** - The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District’s proportionate share of the Net OPEB liability:	\$20,144,522	\$16,923,284	\$14,375,077

**Healthcare Cost Trend Rates Sensitivity Analysis** – The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percent lower or one-percent higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District’s proportionate share of the Net OPEB liability:	\$14,055,063	\$16,923,284	\$20,700,793

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*** - At August 31, 2019, the District reported a liability of \$16,923,284 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective net OPEB liability	\$16,923,284
State's proportionate share that is associated with District	23,979,737
Total	<u>\$40,903,021</u>

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

At August 31, 2018, the District's proportion of the collective Net OPEB Liability was 0.0338933978% which was an increase of 0.0011714062 over its proportion measured as of August 31, 2017

***Changes in Actuarial Assumptions Since the Prior Actuarial Valuation*** – The following were changes in the actuarial assumptions or other inputs that affected the measurement of the Total OPEB liability since the prior measurement period.

1. Adjustments were made for retirees that were known to have discontinued their health care coverage in the fiscal year 2018. This change increased the Total OPEB Liability.
2. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
3. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
4. The discount rate changed from 3.42 percent as of August 31, 2017, to 3.69 percent as of August 31, 2018. This change lowered the Total OPEB Liability to \$2.3 billion.

***Changes in Benefit Terms:*** The 85<sup>th</sup> Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017.

5. Created a high-deductible health plan that provides a zero cost for generic prescriptions, for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017, and are not eligible to enroll in Medicare.
6. Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
7. Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
8. Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.

9. Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$1,375,882 and revenue of \$872,239 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 898,056	\$ 267,074
Changes in actuarial assumptions	282,404	5,084,476
Net difference between projected and actual investment earnings	2,960	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	641,989	0
Total as of August 31, 2018 measurement date	1,825,409	5,351,550
Contributions paid to TRS subsequent to the measurement date	249,687	0
Total	<u>\$2,075,096</u>	<u>\$5,351,550</u>

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2020	\$(586,196)
2021	(586,196)
2022	(586,196)
2023	(586,756)
2024	(587,076)
Thereafter	(593,721)

#### T. Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on-behalf of the District were \$109,263, \$86,902, and \$82,952, respectively. These payments are recorded as equal revenues and expenditures in the governmental fund financial statements of the District.



#### **U. Active Employee Health Care Coverage**

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. The plan is authorized by the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and by the Texas Administrative Code, Title 34, Part 3, Chapter 41. The District contributed approximately \$334 per month per participant to the plan, and employees, at their option, authorized payroll withholdings to pay employee contributions and additional premiums for dependents. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS ActiveCare. That report may be obtained by visiting the TRS Website at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing the Communications Department of the Texas Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling (800) 223-8778.

#### **V. Workers' Compensation Program**

During the year, the District met its statutory workers' compensation obligations through participation in the Texas Association of School Boards ("TASB") Risk Management Fund (the "Fund"). The Fund was created and is operated under the provision of the Inter-local Cooperation Act, Chapter 491 of the Texas Governmental Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The member participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. For the year ended May 31, 2019, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of May 31, 2018, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

The following is the District’s estimated outstanding liability as of August 31, 2019.

Fund Year	Claim Count at 5/31/18	Aggregate Liability	Estimated Paid Loss & ALAE at 8/31/19	Estimated Ultimate Loss & ALAE at 8/31/19	Estimated Outstanding Loss & ALAE at 8/31/19
2014-15	31	\$202,369	\$40,610	\$ 40,610	\$ 0
2015-16	51	205,599	53,848	53,848	0
2016-17	24	209,689	78,154	93,691	15,537
2017-18	42	193,717	38,936	47,202	8,266
2018-19	21	182,266	52,080	147,356	95,276

**W. Commitments and Contingencies**

1. State and Federal Grants

Minimum foundation funding received from TEA is based primarily upon information concerning average daily attendance at the District’s schools which is compiled by the District and supplied to TEA. Federal funding for Food Service under child nutrition programs is based primarily on the number and type of meals served and on user charges as reported to the United States Department of Agriculture (“USDA”). Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District’s administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

2. Litigation

The District is not a party in any litigation.

**X. Risk Management**

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

**Y. Evaluation of Subsequent Events**

The Board of Trustees called for a bond election on November 5, 2019, in the amount of \$20,850,000 to expand two of the District’s elementary schools. The voters approved the proposed bond issuance with construction expected to proceed by late May 2020.

The District has evaluated subsequent events through November 14, 2019, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

DENISON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 21,275,000	\$ 21,329,900	\$ 21,951,820	\$ 621,920
5800 State Program Revenues	22,574,035	23,090,035	22,718,964	(371,071)
5900 Federal Program Revenues	845,000	845,000	1,496,299	651,299
5020 Total Revenues	44,694,035	45,264,935	46,167,083	902,148
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	25,965,865	25,867,865	24,143,789	1,724,076
0012 Instructional Resources and Media Services	470,650	470,650	391,960	78,690
0013 Curriculum and Instructional Staff Development	401,825	401,825	335,258	66,567
0021 Instructional Leadership	635,235	635,235	557,406	77,829
0023 School Leadership	2,204,691	2,204,691	2,044,483	160,208
0031 Guidance, Counseling and Evaluation Services	1,734,965	1,734,965	1,686,505	48,460
0033 Health Services	439,300	439,300	384,813	54,487
0034 Student (Pupil) Transportation	1,882,000	2,281,700	2,067,046	214,654
0036 Extracurricular Activities	2,070,489	2,070,489	1,816,478	254,011
0041 General Administration	1,721,875	1,721,875	1,607,359	114,516
0051 Facilities Maintenance and Operations	6,141,250	6,816,250	6,176,523	639,727
0052 Security and Monitoring Services	279,400	339,400	279,745	59,655
0053 Data Processing Services	596,915	1,210,915	558,223	652,692
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	455,000	449,875	5,125
Intergovernmental:				
0099 Other Intergovernmental Charges	500,000	500,000	473,868	26,132
6030 Total Expenditures	45,044,460	47,150,160	42,973,331	4,176,829
1200 Net Change in Fund Balances	(350,425)	(1,885,225)	3,193,752	5,078,977
0100 Fund Balance - September 1 (Beginning)	16,674,986	16,674,986	16,674,986	-
3000 Fund Balance - August 31 (Ending)	\$ 16,324,561	\$ 14,789,761	\$ 19,868,738	\$ 5,078,977

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DENISON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016
District's Proportion of the Net Pension Liability (Asset)	0.023020488%	0.0245013%	0.0248288%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 12,671,035	\$ 7,834,199	\$ 9,382,436
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	24,169,278	14,054,242	17,335,072
Total	<u>\$ 36,840,313</u>	<u>\$ 21,888,441</u>	<u>\$ 26,717,508</u>
District's Covered Payroll	\$ 28,223,304	\$ 27,776,413	\$ 27,552,253
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	44.90%	28.20%	34.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.74%	82.17%	78.00%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only five years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

<u>FY 2016</u>		<u>FY 2015</u>	
<u>Plan Year 2015</u>		<u>Plan Year 2014</u>	
	0.0257218%		0.0148228%
\$	9,092,314	\$	3,959,374
	17,095,382		14,670,278
<u>\$ 26,187,696</u>		<u>\$ 18,629,652</u>	
\$	27,037,717	\$	25,748,904
	33.63%		15.38%
	78.43%		83.25%



DENISON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2019

	2019	2018	2017
Contractually Required Contribution	\$ 816,272	\$ 777,341	\$ 803,010
Contribution in Relation to the Contractually Required Contribution	(816,272)	(777,341)	(803,010)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 29,361,977	\$ 28,223,304	\$ 27,776,413
Contributions as a Percentage of Covered Payroll	2.78%	2.75%	2.89%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

<hr/>	
2016	2015
<hr/>	
\$ 788,874	\$ 761,635
(788,874)	(761,635)
<hr/>	
\$ -	\$ -
<hr/> <hr/>	
\$ 27,552,253	\$ 27,037,717
2.86%	2.82%

DENISON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED AUGUST 31, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.033893398%	0.032722%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 16,923,284	\$ 14,229,567
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	23,979,737	21,660,937
Total	<u>\$ 40,903,021</u>	<u>\$ 35,890,504</u>
District's Covered Payroll	\$ 28,223,304	\$ 27,776,413
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	59.96%	51.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.57%	0.91%

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

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

DENISON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2019

	2019	2018
Contractually Required Contribution	\$ 249,687	\$ 233,812
Contribution in Relation to the Contractually Required Contribution	(249,687)	(233,812)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered Payroll	\$ 29,361,977	\$ 28,223,304
Contributions as a Percentage of Covered Payroll	0.85%	0.83%

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

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

A. Notes to Schedule for the TRS Pension

*Changes in Benefit terms*

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

*Changes in Assumptions*

Assumptions, methods, and plan changes that are specific to the Pension Trust Fund were updated from the prior year report. The Net Position Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

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

B. Notes to Schedules for the TRS OPEB Plan

*Changes in Benefit*

The 85<sup>th</sup> Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare eligible participants.
- Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and the eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

*Changes in Assumption*

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in the fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate changed from 3.42 percent as of August 31, 2017, to 3.69 percent, as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.

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

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

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