

OFFICIAL STATEMENT

Dated June 27, 2019

Ratings:  
S&P: “AAA”/“A+”  
PSF Guaranteed  
See: “OTHER INFORMATION -  
Rating” and “THE PERMANENT  
SCHOOL FUND GUARANTEE  
PROGRAM” herein

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.



\$16,570,000  
TROY INDEPENDENT SCHOOL DISTRICT  
(Bell and Falls Counties, Texas)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

Dated: July 24, 2019

Due: August 1, as shown on the inside cover page

Interest Accrues from the Date of Initial Delivery

**PAYMENT TERMS** . . . Interest on the \$16,570,000 Troy Independent School District Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”) will accrue from the date of initial delivery, will be payable on August 30, 2019, and each February 1 and August 1 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the Beneficial Owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distributions of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (see “THE BONDS – Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 45, Texas Education Code, as amended, an election held on May 4, 2019 and the order authorizing the Bonds approved on June 27, 2019 (the “Order”) and are direct obligations of the Troy Independent School District (the “District”), payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see “THE BONDS – Authority for Issuance”). **An application has been filed and conditional approval received for the Bonds to be guaranteed by the Permanent School Fund (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for school building purposes, including (i) additions and renovations at Troy High School, Mays Elementary, Raymond Mays Middle and Troy Elementary schools, (ii) district-wide safety projects and (iii) to pay the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose”).

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CUSIP PREFIX: 897727  
MATURITY SCHEDULE & 9 DIGIT CUSIP  
SEE INSIDE COVER PAGE

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**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see “APPENDIX C – Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on July 24, 2019.

SAMCO CAPITAL MARKETS, INC.

BOK FINANCIAL SECURITIES, INC.

## MATURITY SCHEDULE

Principal Amount	Maturity Date August 1	Interest Rate	Initial Yield	CUSIP Numbers <sup>(1)</sup>
\$ 285,000	2020	5.000%	1.310%	897727JT1
235,000	2021	5.000%	1.340%	897727JU8
245,000	2022	5.000%	1.380%	897727JV6
260,000	2023	5.000%	1.410%	897727JW4
270,000	2024	5.000%	1.450%	897727JX2
280,000	2025	5.000%	1.530%	897727JY0
300,000	2026	5.000%	1.610%	897727JZ7
310,000	2027	5.000%	1.700%	897727KA0
325,000	2028	5.000%	1.800%	897727KB8
405,000	2029	4.000%	2.000%	897727KC6 <sup>(2)</sup>
280,000	2030	4.000%	2.110%	897727KD4 <sup>(2)</sup>
295,000	2031	4.000%	2.180%	897727KE2 <sup>(2)</sup>
305,000	2032	4.000%	2.260%	897727KF9 <sup>(2)</sup>
320,000	2033	4.000%	2.360%	897727KG7 <sup>(2)</sup>
325,000	2034	4.000%	2.430%	897727KH5 <sup>(2)</sup>
345,000	2035	4.000%	2.490%	897727KJ1 <sup>(2)</sup>
355,000	2036	4.000%	2.530%	897727KK8 <sup>(2)</sup>
1,240,000	2037	4.000%	2.570%	897727KL6 <sup>(2)</sup>
1,290,000	2038	4.000%	2.610%	897727KM4 <sup>(2)</sup>
1,340,000	2039	4.000%	2.650%	897727KN2 <sup>(2)</sup>

**\$7,560,000 4.000% Term Bonds due August 1, 2044 Priced to Yield 2.800%<sup>(2)</sup> – 897727KT9<sup>(1)</sup>**

**(Interest accrues from the date of initial delivery)**

- (1) 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. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the District, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2028, the first optional redemption date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**REDEMPTION . . .** The Bonds having stated maturities on and after August 1, 2029, are subject to redemption at the option of the District, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2028 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE BONDS – Optional Redemption.” Additionally, the Term Bond maturing August 1, 2044 is subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

*[The remainder of this page intentionally left blank.]*

*This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.*

*Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. 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 THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 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 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 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

**NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

NONE OF THE DISTRICT, ITS 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 OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

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

## OFFICIAL STATEMENT SUMMARY

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

<b>THE DISTRICT</b> .....	The Troy Independent School District (the “District”) operates as an independent school district under the laws of the State of Texas (the “State”). It is located in Bell and Falls Counties, Texas. The District is approximately 102 square miles in area. The District is governed by a seven-member Board of Trustees (the “Board”) who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. See “APPENDIX A – General Information Regarding the District.”
<b>THE BONDS</b> .....	The Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”) will be dated July 24, 2019 (“Dated Date”). The Bonds will be issued as serial Bonds maturing August 1 in the years 2020 through and including 2039 and as a Term Bonds maturing August 1, 2044 (see “THE BONDS – Description of the Bonds”).
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds will accrue from the date of initial delivery and will be payable on August 30, 2019 and each February 1 and August 1 thereafter until maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 in principal amount for any one maturity. See “THE BONDS – Description of the Bonds.”
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 45, Texas Education Code, as amended, an election held on May 4, 2019 and an order adopted by the Board of Trustees of the District on June 27, 2019 (the “Order”) (see “THE BONDS – Authority for Issuance”).
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District (see “THE BONDS – Security and Source of Payment”). Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS – Security and Source of Payment” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
<b>REDEMPTION</b> .....	The Bonds having stated maturities on and after August 1, 2029, are subject to redemption at the option of the District, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2028 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”). Additionally, the Term Bond maturing August 1, 2044 is subject to mandatory sinking fund redemption (see “THE BONDS – Mandatory Sinking Fund Redemption”).
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used for school building purposes, including (i) additions and renovations at Troy High School, Mays Elementary, Raymond Mays Middle and Troy Elementary schools, (ii) district-wide safety projects and (iii) to pay the costs associated with the issuance of the Bonds (“THE BONDS – Purpose”).
<b>RATINGS</b> .....	The Bonds have been rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding unlimited tax supported debt of the District are also rated “A+” by S&P without regard to credit enhancement. The District also has several bond issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas as “AAA” (see “THE PERMANENT

SCHOOL FUND GUARANTEE PROGRAM”) (see “OTHER INFORMATION – Rating”).

**BOOK-ENTRY-ONLY SYSTEM.....** The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – Book-Entry-Only System”).

**PAYMENT RECORD .....** The District has never defaulted in payment of its tax supported debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End Of Year	Tax Supported Debt Per Capita	% Total Collections
2015	7,265	\$ 291,913,377	\$ 40,181	\$ 17,610,011	\$ 2,424	98.00%
2016	7,321	291,817,794	39,860	16,865,011	2,304	99.06%
2017	7,377	323,501,091	43,853	16,095,011	2,182	98.36%
2018	7,465	347,668,528	46,573	15,295,011	2,049	99.44%
2019	7,539	368,706,434	48,907	31,045,011 <sup>(3)</sup>	4,118 <sup>(3)</sup>	96.20% <sup>(4)</sup>

- (1) Source: Municipal Advisory Council of Texas.
- (2) Taxable Assessed Values, with the exception of Fiscal Year 2019 values, are reported in the District’s audited financial statements. Fiscal Year 2019 is reported by the Bell and Falls County Appraisal Districts.
- (3) Projected as of August 31, 2019. Includes the Bonds.
- (4) Partial collections as of May 21, 2019.

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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Term Expires</u>
Pam Bulls President	May 2021
Becky Maks Vice-President	May 2021
Carrie Trees Secretary	May 2020
Jennine Jarolik Boardmember	May 2020
Edward Luna Boardmember	May 2022
Gary McMurtry Boardmember	May 2022
John Gersbach Boardmember	May 2022

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>
Neil Jeter	Superintendent
Cindy Holloway	Director of Business Operations

**CONSULTANTS AND ADVISORS**

Auditor.....Ludwick, Montgomery & Stapp, P.C.  
Temple, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.  
Austin, Texas

For additional information regarding the District, please contact:

Cindy Holloway Director of Business Operations Troy ISD #1 Trojan Road Troy, Texas 76579 254/938-2595 254/938-7323 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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## OFFICIAL STATEMENT

### RELATING TO

**\$16,570,000**

### **TROY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019**

### INTRODUCTION

This Official Statement, which includes the Appendices attached hereto, provides certain information regarding the issuance of \$16,570,000 Troy Independent School District Unlimited Tax School Building Bonds, Series 2019 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order adopted by the Board of Trustees of the District (the “Board”) on June 27, 2019 authorizing the issuance of the Bonds (the “Order”).

There follows in this Official Statement descriptions of the Bonds and certain information regarding 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 from the District’s Financial Advisor, Specialized Public Finance Inc., Austin, Texas.

**DESCRIPTION OF THE DISTRICT . . .** The District operates as an independent school district under the laws of the State of Texas (the “State”). It is a political subdivision located in Bell and Falls Counties, Texas. The District is governed by the seven-member Board who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Superintendent of Schools, who is the chief administrative officer. Support services are supplied by consultants and advisors. The District covers approximately 102 square miles in Bell and Falls Counties, and fully encompasses the City of Troy. See “APPENDIX A – General Information Regarding the District.”

### THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated July 24, 2019 and mature on August 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the date of initial delivery and will be payable on August 30, 2019 and each February 1 and August 1 thereafter until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the Beneficial Owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 45, Texas Education Code, as amended, an election held in the District on May 4, 2019, and the Order.

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. An application has been filed for the Bonds to be guaranteed by the Permanent School Fund (see “– Permanent School Fund Guarantee” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

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

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2029, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION . . .** The Bonds maturing August 1, 2044 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the date of redemption by lot:

<u>Term Bonds Due August 1, 2044</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
August 1, 2040	\$ 1,395,000
August 1, 2041	1,450,000
August 1, 2042	1,510,000
August 1, 2043	1,570,000
August 1, 2044*	1,635,000

\*Stated Maturity.

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

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing 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. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

**DTC REDEMPTION PROVISIONS . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant (defined below) or Indirect Participant (defined below) to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See “THE BONDS – Book-Entry-Only System.”

**DEFEASANCE OF OUTSTANDING BONDS . . . General.** The Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Order under certain circumstances. Any Bond and the interest



thereon shall be deemed to be paid, retired and no longer outstanding (a “Defeased Obligation”) within the meaning of the Order, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the District to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied as provided in the Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

Any money so deposited with the Paying Agent/Registrar or an eligible trust company or commercial bank may at the discretion of the Board also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Order, and all income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligations shall have become due and payable, the Paying Agent/Registrar shall perform the services of registrar for such Defeased Obligations the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Order shall be made without the consent of the registered owner of each Bond affected thereby.

Investments. Any escrow agreement or other instrument entered into between the District and the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of Defeased Obligations may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the Board.

For the purposes of these provisions, “Defeasance Securities” means (i) Federal Securities, (ii) 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 adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iii) 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 adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent. For the purposes of these provisions, “Federal Securities” means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including the interest component of bonds issued by the Resolution Funding Corporation).

The Permanent School Fund Guarantee with respect to any Bonds defeased will terminate upon such defeasance.

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but the District and the Underwriters take no responsibility for the accuracy thereof.

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount or maturity amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

**LIMITATION ON TRANSFER OF BONDS . . .** Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date. Additionally, neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth (15<sup>th</sup>) day of the preceding month, except for the first interest payment date of August 30, 2019 when the record date shall be August 29, 2019.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("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 Owner of a Bond appearing on the registration 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.

**AMENDMENTS . . .** In the Order, the District may from time to time, without the consent of any Owner, except as otherwise required below, amend or supplement the Order in order to (i) cure any ambiguity, defect or omission in the Order that does not materially adversely affect the interests of the Owners, (ii) grant additional rights or security for the benefit of the Owners, (iii) add events of default as shall not be inconsistent with the provisions of the Order and that shall not materially adversely affect the interests of the Owner, (v) 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 (iv) make such other provisions in regard to matters or questions arising under the Order as shall not be

inconsistent with the provisions of the Order and that shall not in the opinion of Bond Counsel materially adversely affect the interests of the Owners.

Except as provided above, the Owners of Bonds aggregating in principal amount 51% of the original principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment hereto that may be deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the Owners in original principal amount of the then outstanding Bonds, nothing in the Order shall permit or be construed to permit amendment of the terms and conditions of the Order or in any of the Bonds so as to:

- (1) Make any change in the maturity of any of the outstanding Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds;
- (3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds;
- (4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Bonds or impose any condition with respect to such payment; or
- (5) Change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Reference is made to the Order for further provisions relating to the amendment of the Order.

**BONDHOLDERS' REMEDIES . . .** The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as herein discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (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 State legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used for school building purposes, including (i) additions and renovations at Troy High School, Mays Elementary, Raymond Mays Middle and Troy Elementary schools, (ii) district-wide safety projects and (iii) to pay the costs associated with the issuance of the Bonds.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds are expected to be applied as follows:

Sources:	
Par Amount of Bonds	\$ 16,570,000.00
Reoffering Premium	<u>1,933,801.45</u>
Total Sources	\$ 18,503,801.45
Uses:	
Deposit to Construction Fund	\$ 18,250,000.00
Deposit to Debt Service Fund	4,646.36
Underwriters' Discount	113,650.95
Costs of Issuance	<u>135,504.14</u>
Total Uses	\$ 18,503,801.45

**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”). (But see “2019 Texas Legislative Session” for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the “GLO”) managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2018 distributions to the ASF amounted to an estimated \$247 per student and the total amount distributed to the ASF was \$1,235.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2018, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](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 proposes a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually. That constitutional change is subject to approval at a State-wide referendum to be conducted on November 5, 2019.

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

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

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund’s investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components.

Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2018, the Fund's financial assets portfolio was invested as follows: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% in unallocated cash.

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

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

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

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

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



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

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

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

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

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

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to

exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the “SDBGP Rules”), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds,” below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter

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

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

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

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

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

of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the

Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

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

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

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

**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 "Rating" herein.

VALUATION OF THE PSF AND GUARANTEED BONDS

**Permanent School Fund Valuations**

Fiscal Year Ending 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2014	\$ 27,596,692,541	\$ 38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018 <sup>(2)</sup>	33,860,358,647	44,074,197,940

- (1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF by the SLB. The SLB reports that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.
- (2) At August 31, 2018, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of \$34,917,398,274 and a market value of \$44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds**

At 8/31	Principal Amount <sup>(1)</sup>
2014	\$ 58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 <sup>(2)</sup>

- (1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
- (2) As of August 31, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746 represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

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

School District Bonds			Charter District Bonds			Totals
FYE 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2014 <sup>(2)</sup>	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018 <sup>(3)</sup>	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

- (1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
- (2) Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.
- (3) At April 30, 2019 (based on unaudited data, which is subject to adjustment), there were \$82,005,532,177 of bonds guaranteed under the Guarantee Program, representing 3,269 school district issues, aggregating \$80,311,477,177 in principal amount and 46 charter district issues, aggregating \$1,694,055,000 in principal amount. At April 30, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$3,265,722,717 (based on unaudited data, which is subject to adjustment).

**DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2017 . . .** The following discussion is derived from the Annual Report for the year ended August 31, 2018, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2018, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

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

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

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

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

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, 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 CONSTITUTIONAL AMENDMENT . . .** On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

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

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

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

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

The constitutional amendments approved on November 8, 2011 also provide authority to the GLO or any other entity other than the SBOE that has responsibility for the management of land or other properties of the Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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

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

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

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

**PSF CONTINUING DISCLOSURE UNDERTAKING . . .** The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](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 Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

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

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

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

**SEC EXEMPTIVE RELIEF . . .** On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the “small issuer exemption” set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school

districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

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

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

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

**OVERVIEW . . .** The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 41 through 46 of the Texas Education Code, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program”, as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The

Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS"). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

**LOCAL FUNDING FOR SCHOOL DISTRICTS . . .** The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the "Reform Legislation"), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For the 2018-19 State fiscal biennium, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "TAX INFORMATION – Public Hearing and Rollback Tax Rate"). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see "TAX RATE LIMITATIONS").

**STATE FUNDING FOR SCHOOL DISTRICTS . . .** State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 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 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. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic

Allotment, create what is referred to as the “Adjusted Allotment.” The Adjusted Allotment is used to compute a “regular program allotment,” as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district’s local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance (“WADA”) in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district’s compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district’s compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see “Wealth Transfer Provisions” below).

Previously, a district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a “fractionally funded district”) received a Basic Allotment which was reduced proportionately to the degree that the district’s compressed tax rate fell short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district’s current M&O tax rate in excess of the first six cents above the district’s compressed tax rate until the district’s compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district’s compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district’s I&S tax effort. The IFA guarantees each awarded 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 State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 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”) was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2018-2019 fiscal year is approximately \$36.65. The portion of a district’s local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district’s bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 85th Texas Legislature appropriated funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

**2006 LEGISLATION . . .** Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“Target Revenue”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts “meaningful discretion” in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction (“ASATR”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district’s Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature

has gradually reduced the reliance on ASATR by increasing the funding formulas, and beginning with the 2017-18 school year, the statutes authorizing ASATR were repealed (eliminating revenue targets and ASATR funding).

**2017 LEGISLATION . . .** The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants (“Hardship Grants”) to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property (“DPV Decline Adjustment”) for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

**2019 LEGISLATION . . .** The 86th Texas Legislature convened on January 8, 2019 and adjourned May 27, 2019. Among other bills, the Legislature adopted House Bill 3 (“HB 3”), providing for changes to financing public schools. HB3 was signed by the Governor on June 12, 2019, with various provisions becoming effective between September 1, 2019 and September 1, 2020 and includes an increase in the State’s share of public school funding from 38% to 45% for the next biennium (September 1, 2019 through August 21, 2021). The bill provides \$4.5 billion for school finance reform, \$5 billion for school property tax relief and \$2 billion for teacher compensation. HB 3 provides for an increase in the basic allotment from the current level of \$5,140 to \$6,160 per student. It is estimated that HB3 would compress school district property tax rates State-wide by an average of 8 cents in 2020 and 13 cents in 2021. Additionally, beginning in fiscal year 2021, HB 3 creates a mechanism by which school districts’ maximum compressed tax rates are compressed for property value growth exceeding 2.5%. The District is currently reviewing the impact of HB 3 on the District’s tax rate, operations, budgets, and recapture obligations.

The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The District can make no representations or predictions regarding legislation that may pass during future sessions of the Legislature.

**WEALTH TRANSFER PROVISIONS . . .** Some districts have sufficient property wealth per student in WADA (“wealth per student”) to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as “Chapter 41” districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain measures in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district’s local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding, a process known as “recapture”.

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district’s voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district’s property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the

Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

**POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION . . .** 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 Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

### TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on March 9, 1968 pursuant to the former Article 2784e-1, Vernon's Annotated Texas Civil Statutes, as amended.

Article 2784e-1 provides for a reduction of 10¢ for each one per cent (1%) or major fraction thereof increase in bonded indebtedness beyond seven per cent of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten per cent of the District's assessed valuation, which would result in an annual maximum maintenance tax rate of \$1.20 per \$100 assessed valuation. The bonded indebtedness of the District after the issuance of the Bonds will be approximately 8.64% of the District's current taxable assessed valuation of property.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the "state compression percentage" multiplied by \$1.50. The state compression percentage has been set, and will remain, at 66.67% for fiscal years 2007-08 through 2018-19. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the state compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX INFORMATION – Public Hearing and Rollback Tax Rate." For information regarding recent changes by the Texas Legislature that will become effective after issuance of the Bonds, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2019 Legislation."

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition 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 school district bonded indebtedness (see "THE BONDS – Source and Security for Payment").

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account State allotments to the district which effectively reduces the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on 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) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay 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 are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt, and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all



previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used projected property values to satisfy this threshold test.

## TAX INFORMATION

**PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT . . .** The Texas Property 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 tax appraisal district of Bell County and Falls County Appraisal District (each an “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”), within each Appraisal District, whose members are appointed by the Board of Directors of each respective 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 Texas law, all real and certain tangible personal property with a tax situs 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) include property owned by the State of Texas 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 windpowered energy devices; real or personal property that is used wholly or partly as a facility, device or method for the control of air, water or land pollution; 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 spouse or children of a deceased veteran who died while on active duty in the armed forces; with veterans who are 100% disabled (being a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability) entitled to an exemption from taxation of the total appraised value of the veteran’s residential homestead; provided further, and subject to certain conditions, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries; a partially disabled veteran is entitled to an exemption from ad valorem taxation of a percentage of the market value of the disabled veteran’s residence homestead that is equal to the percentage of disability of the disabled veteran if the residence homestead was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran; provided further, and subject to certain conditions, the surviving spouse of a partially disabled veteran who had received a residence homestead from a charitable organization at no cost to the disabled veteran, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries; \$25,000 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 or disability 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 is 65 years of age or older and qualifies for the freeze on ad valorem taxes based on such person’s age is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual’s spouse. A “disabled” person is one who is “under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance.” 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 or 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 – Overview” herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Following the approval by the voters at a November 7, 2017 statewide election (and effective as of 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.

A city may create, and a county may participate in, a tax increment financing district (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for

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

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 a provision of the Property 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. The Tax Code provision 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 "Table 1 – Valuation, Exemption and Tax-Supported Debt" and "– District Application of Tax Code" for a schedule of exemptions allowed by the District.

**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, 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 the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year plus (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 . . .** The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads from ad valorem taxation. The Texas Constitution authorizes the governing body of each political

subdivision in the state to exempt up to twenty percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older and disabled persons.

The governing body of a political subdivision is prohibited from repealing or reducing the amount of an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019.

**DISTRICT AND TAXPAYER REMEDIES . . .** Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

**PUBLIC HEARING AND ROLLBACK TAX RATE . . .** In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State Compression Percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's State Compression Percentage for that year multiplied by \$0.06; and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage"). If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O tax rate for that 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 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 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.

Section 26.05 of the Property 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 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 tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (d) and, if applicable, Subsection (i), if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

**2019 LEGISLATION AFFECTING AD VALOREM TAXATION . . .** The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District's operations and financial condition.

SB 2 was signed by the Governor on June 12, 2019 and primarily becomes effective on January 1, 2020.

SB 2 includes provisions that address the following goals as described by the Texas Senate Research Center: (1) lowering the rollback rate for maintenance and operations taxes from the existing 8.0% for the largest taxing units in the State (but this provision does not apply to school districts); (2) requiring a tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in current statute; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted.

At this time, the District cannot predict whether SB 2 will be signed into law by the Governor, and if SB 2 becomes law, how the District would be affected by the provisions of SB 2. In addition, the District cannot predict whether the Governor will call one or more special sessions to address other property tax reforms not included in SB 2.

The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The District can make no representations or predictions regarding legislation that may pass during future sessions of the Legislature.

**LEVY AND COLLECTION OF TAXES . . .** The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60th day after the date that the certified appraisal role is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purpose and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on 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 upon 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.**

**DISTRICT APPLICATION OF PROPERTY TAX CODE . . .** The tax Appraisal District of Bell County collects the District's taxes. The District grants a State-mandated exemption of \$25,000 for general homestead and an additional \$10,000 for persons 65 years of age or older and the disabled. The District grants an additional exemption of \$6,670 for persons 65 years of age or older. See Table 1 below for a listing of the aggregate amount of the exemptions.

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

The District does not tax nonbusiness personal property.

The District does not permit split payments, and discounts are not allowed.

The District does not tax freeport property.

The District has adopted a tax abatement policy. Under such agreements, a property owner agrees to construct certain improvements on its property. The 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 abatement agreement. The abatement agreement could last up to 10 years. The District has not entered into any agreements.

The District is currently a participant in a tax increment reinvestment zone designated as "Reinvestment Zone Number One, City of Temple" (the "Zone"). Pursuant to its agreement to participate in the Zone with the City of Temple, Texas (the "City") dated August 26, 1999 pursuant to which the District agreed to contribute to the Zone 100% of the ad valorem taxes generated from the District's taxation of the total Incremental Value of the Zone and the City agreed to make the District whole for any financial impact on the District caused by its participation in the Zone. Because the Zone was created prior to May 31, 1999 and the Zone Plan was adopted and approved prior to August 31, 1999, under current State law, the Incremental Value of property in the Zone

is excluded by the Commissioner of Education in determining the District's property value wealth per student, which under current law insulates the District against the potential loss of State financial assistance that would result from the inclusion of such Incremental Value in determining the District's wealth per student. The District can make no assurances that the law with respect to the Zone will not change in the future.

**TABLE 1 – VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT**

2018/19 Market Valuation Established by the Bell and Falls County Appraisal Districts (excluding totally exempt property)	\$ 577,557,783
Less Exemptions/Reductions at 100% Market Value:	<u>208,851,349</u>
2018/19 Taxable Assessed Valuation	\$ 368,706,434 <sup>(1)</sup>
School Funded Debt Payable from Ad Valorem Taxes (as of 6-1-2019)	\$ 15,295,011 <sup>(2)</sup>
The Bonds	<u>16,570,000</u>
Total Debt Payable from Ad Valorem Taxes	\$ 31,865,011
Interest and Sinking Fund (as of 6-1-2019)	\$ 1,124,461
Ratio Tax Supported Debt to Taxable Assessed Valuation	8.64%

2019 Estimated Population - 7,539  
Per Capita Taxable Assessed Valuation - \$48,907  
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$4,227

(1) Includes frozen values.

(2) Excludes the Bonds and does not include interest accreted on outstanding capital appreciation bonds.

**TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2015	7,265	\$ 291,913,377	\$ 40,181	\$ 17,610,011	6.03%	\$ 2,424
2016	7,321	291,817,794	39,860	16,865,011	5.78%	2,304
2017	7,377	323,501,091	43,853	16,095,011	4.98%	2,182
2018	7,465	347,668,528	46,573	15,295,011	4.40%	2,049
2019	7,539	368,706,434	48,907	31,045,011 <sup>(3)</sup>	8.42% <sup>(3)</sup>	4,118 <sup>(3)</sup>

(1) Source: The Municipal Advisory Council of Texas.

(2) Taxable Assessed Values, with the exception of Fiscal Year 2019 values, are reported in the District's audited financial statements. Fiscal Year 2019 is reported by the Bell and Falls County Appraisal Districts.

(3) Projected as of August 31, 2019. Includes the Bonds.

**TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 8/31	Tax Rate <sup>(1)</sup>	General Fund	Interest and Sinking Fund	Tax Levy <sup>(1)</sup>	% Current Collections	% Total Collections
2015	\$ 1.3317	\$ 1.0400	\$ 0.2917	\$ 3,888,211	96.33%	98.00%
2016	1.3317	1.0400	0.2917	3,886,137	97.08%	99.06%
2017	1.3102	1.0400	0.2702	4,077,078	96.82%	98.36%
2018	1.2902	1.0400	0.2502	4,301,029	97.33%	99.44%
2019	1.2902	1.0400	0.2502	4,560,446	94.60% (2)	96.20% (2)

(1) As reported by the District.

(2) Partial collections as of May 21, 2019.

**TABLE 4 – TEN LARGEST TAXPAYERS**

Name of Taxpayer	2018/19 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Oncor Electric Delivery	\$ 14,927,845	4.05%
C&H Die Casting Inc	8,371,137	2.27%
Union Pacific Railroad Co	5,723,950	1.55%
Cargill Incorporated	5,455,869	1.48%
Burlington Northern Sante Fe Railway	4,859,232	1.32%
Safeguard Metal Buildings Inc	4,595,883	1.25%
Cargill Turkey Production LLC	2,535,594	0.69%
Longhorn International Trucks LTD	2,213,503	0.60%
Lide Industries LLC	2,154,873	0.58%
Love's Travel Stop	2,000,000	0.54%
	\$ 52,837,886	14.33%

**TABLE 5 – ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 4/30/2019
Bell County	\$ 119,750,000	1.87%	\$ 2,239,325
Falls County	2,975,000	0.96%	28,560
Temple College District	16,345,000	0.60%	98,070
City of Temple	231,445,000	0.60%	1,388,670
City of Troy	3,155,000	96.27%	3,037,319
Troy ISD	31,865,011	100.00%	31,865,011 (1)
Total Direct and Overlapping Tax Supported Debt			\$ 38,656,955
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			10.48%
Per Capita Overlapping Tax Supported Debt			\$ 5,128

(1) Includes the Bonds. Does not include interest accreted on outstanding capital appreciation bonds.

**DEBT INFORMATION**

**TABLE 6 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	Outstanding Debt <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2019	\$ 820,000	\$ 511,642	\$ 1,331,642	\$ -	\$ 68,790	\$ 68,790	\$ 1,400,432
2020	70,014	1,162,205	1,232,219	285,000	632,486	917,486	2,149,705
2021	755,000	485,819	1,240,819	235,000	673,650	908,650	2,149,469
2022	775,000	463,919	1,238,919	245,000	661,900	906,900	2,145,819
2023	800,000	440,294	1,240,294	260,000	649,650	909,650	2,149,944
2024	830,000	412,294	1,242,294	270,000	636,650	906,650	2,148,944
2025	860,000	383,244	1,243,244	280,000	623,150	903,150	2,146,394
2026	885,000	353,144	1,238,144	300,000	609,150	909,150	2,147,294
2027	920,000	322,169	1,242,169	310,000	594,150	904,150	2,146,319
2028	955,000	289,969	1,244,969	325,000	578,650	903,650	2,148,619
2029	34,567	1,146,977	1,181,544	405,000	562,400	967,400	2,148,944
2030	580,430	741,114	1,321,544	280,000	546,200	826,200	2,147,744
2031	1,080,000	239,594	1,319,594	295,000	535,000	830,000	2,149,594
2032	1,110,000	207,194	1,317,194	305,000	523,200	828,200	2,145,394
2033	1,145,000	173,894	1,318,894	320,000	511,000	831,000	2,149,894
2034	1,185,000	138,113	1,323,113	325,000	498,200	823,200	2,146,313
2035	1,220,000	99,600	1,319,600	345,000	485,200	830,200	2,149,800
2036	1,270,000	50,800	1,320,800	355,000	471,400	826,400	2,147,200
2037	-	-	-	1,240,000	457,200	1,697,200	1,697,200
2038	-	-	-	1,290,000	407,600	1,697,600	1,697,600
2039	-	-	-	1,340,000	356,000	1,696,000	1,696,000
2040	-	-	-	1,395,000	302,400	1,697,400	1,697,400
2041	-	-	-	1,450,000	246,600	1,696,600	1,696,600
2042	-	-	-	1,510,000	188,600	1,698,600	1,698,600
2043	-	-	-	1,570,000	128,200	1,698,200	1,698,200
2044	-	-	-	1,635,000	65,400	1,700,400	1,700,400
	<u>\$ 15,295,011</u>	<u>\$ 7,621,981</u>	<u>\$ 22,916,992</u>	<u>\$ 16,570,000</u>	<u>\$ 12,012,826</u>	<u>\$ 28,582,826</u>	<u>\$ 51,499,817</u>

(1) Excludes the Bonds.

(2) Interest calculated at the rates shown on the inside cover page hereof.

**TABLE 7 – INTEREST AND SINKING FUND BUDGET PROJECTION <sup>(1)</sup>**

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/2019	\$ 1,400,432
Interest and Sinking Fund, 8/31/2018	\$ 1,124,461
Budgeted Revenue from Interest and Sinking Fund Tax Levy	922,503
State Aid (Educational Facilities Allotment and Instructional Facilities Allotment)	<u>468,979</u>
	<u>2,515,943</u>
Estimated Balance, 8/31/2019	\$ 1,115,511

(1) The numbers listed are preliminary and subject to change. The amount of State funding 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.

**AUTHORIZED BUT UNISSUED UNLIMITED TAX DEBT**

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued <sup>(1)</sup>	Unissued Balance
School Buildings and Security	5/4/2019	\$ 18,250,000	\$ -	\$ 18,250,000	\$ -

(1) Includes allocated premium of \$1,680,000 to be used against the voted authority.

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

**ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . .** The District does not anticipate issuing additional unlimited tax bonds within the next twelve months.

**OTHER OBLIGATIONS . . .** The District has \$29,496 outstanding on lease-purchase contracts for copiers and outstanding capital leases for buses in the principal amount of \$63,282. Such contracts are payable from operating and maintenance funds and are subject to annual appropriations. See Note G – Operating Lease Obligations and Note H – Capital Lease Obligations in “APPENDIX B – Excerpts from the Troy Independent School District Annual Financial Report.”

**PENSION FUND . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 7.7%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Note J in “APPENDIX B – Excerpts from the Troy Independent School District Annual Financial Report”).

**SCHOOL DISTRICT RETIREE HEALTH PLAN . . .** In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the “TRS Care Retired Plan”), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District’s funding policy and contributions in connection with the TRS Care Retired Plan, see Note M in APPENDIX B.

In addition to the System pension plan, the District provides health care coverage for its employees. For a discussion of the District’s medical plan, see Note N in “APPENDIX B – Excerpts from the Troy Independent School District Annual Financial Report.”

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

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**FINANCIAL INFORMATION**

**TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Years Ended August 31,				
	2018	2017	2016	2015	2014
Beginning General Fund Balance	\$ 4,585,334	\$ 4,342,570	\$ 4,466,243	\$ 4,219,424	\$ 3,906,398
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 3,765,279	\$ 3,454,299	\$ 3,267,688	\$ 3,207,602	\$ 3,111,411
State Sources	8,992,517	8,820,053	8,527,263	8,252,870	7,760,662
Federal Sources	-	-	-	-	-
Total Revenues	<u>\$ 12,757,796</u>	<u>\$ 12,274,352</u>	<u>\$ 11,794,951</u>	<u>\$ 11,460,472</u>	<u>\$ 10,872,073</u>
<u>Expenditures:</u>					
Instruction	\$ 7,097,898	\$ 6,758,659	\$ 6,542,682	\$ 6,088,934	\$ 5,702,730
Instructional Administration	532,331	526,603	875,043	582,593	494,215
School Leadership	788,836	774,275	748,985	722,959	738,560
Guidance & Counseling	353,772	336,587	321,793	313,279	329,039
Health Services	147,624	110,306	112,427	106,498	99,030
Student Transportation	580,123	527,349	534,097	543,241	590,339
Extracurricular Activities	567,183	569,349	506,406	576,606	548,341
General Administration	335,541	330,142	322,877	302,324	265,862
Plant Maintenance & Operations	1,885,996	1,408,305	1,302,783	1,379,585	1,179,135
Security & Monitoring Services	14,947	12,974	10,754	44,609	10,540
Data Processing	355,017	340,266	336,569	323,259	343,876
Debt Service	66,479	65,493	65,477	34,655	113,453
Facilities Acquisition & Construction	-	126,470	-	56,846	-
Contracted Instructional Services	-	137,921	135,743	129,372	130,640
Payments to Juvenile Justice Alt. Ed.	-	-	-	-	-
Other Intergovernmental Charges	247,895	100,167	102,989	103,582	105,287
Total Expenditures	<u>\$ 12,973,642</u>	<u>\$ 12,124,866</u>	<u>\$ 11,918,625</u>	<u>\$ 11,308,342</u>	<u>\$ 10,651,047</u>
Net Revenues	\$ (215,846)	\$ 149,486	\$ (123,674)	\$ 152,130	\$ 221,026
Other Revenues	-	93,278	-	94,689	92,000
Ending General Fund Balance on August 31	\$ 4,369,488	\$ 4,585,334	\$ 4,342,569	\$ 4,466,243	\$ 4,219,424

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**TABLE 8A – CHANGES IN NET POSITION**

	Fiscal Years Ended August 31,				
	2018	2017	2016	2015	2014
<u>Assets:</u>					
Cash and Cash Equivalents	\$ 5,793,275	\$ 6,482,372	\$ 6,319,993	\$ 5,501,219	\$ 5,501,169
Property Taxes Receivable (Delinquent)	317,545	310,536	269,143	284,043	295,907
Allowance for Uncollectible Taxes	(63,509)	(62,107)	(53,828)	(56,808)	(59,181)
Due from Other Governments	586,326	216,179	81,301	691,990	298,500
Accrued Interest	-	-	-	-	748,914
Other Receivables	-	16,569	6,060	25,440	17,826
Capitalized Bond and Other Debt Issuance Costs	-	-	-	-	-
Deferred Expenditures/Expenses	-	-	-	-	-
Land	363,820	363,820	363,820	363,820	363,820
Buildings	19,242,641	20,100,558	20,959,874	21,819,378	22,678,996
Furniture and Equipment	364,354	426,748	538,876	346,906	298,175
Other Current Assets	359,510	391,428	412,036	413,335	394,090
Leased Property Under Capital Leases	-	-	-	-	-
Books and Media	134,883	134,883	134,883	134,883	134,883
Total Assets	<u>\$ 27,098,845</u>	<u>\$ 28,380,986</u>	<u>\$ 29,032,158</u>	<u>\$ 29,524,206</u>	<u>\$ 30,664,099</u>
<u>Deferred Outflows of Resources</u>	\$ 1,045,700	\$ 1,101,934	\$ 1,246,493	\$ 250,335	\$ -
<u>Liabilities:</u>					
Accounts Payable	\$ 80,272	\$ 123,504	\$ 86,933	\$ 194,333	\$ 86,663
Payroll Deductions & Withholdings	1,544	-	(2,300)	3,095	532
Accrued Wages Payable	510,507	467,511	460,327	337,747	290,303
Due to Other Governments	-	136,231	1,218	1,218	1,218
Due to Student Groups	-	-	-	-	-
Accrued Expenses	10,406	8,685	8,492	6,233	5,381
Unearned Revenue	2,492	21,740	201,319	20,441	20,088
<u>Long Term Liabilities:</u>					
Due Within One Year	967,556	997,997	833,003	806,425	747,229
Net Pension Liability	2,058,174	2,231,949	2,164,328	857,999	-
Net OPEB Liability	4,110,567	-	-	-	-
Due in More Than One Year	17,486,622	18,401,339	17,796,800	18,696,623	19,476,655
Total Liabilities	<u>\$ 25,228,140</u>	<u>\$ 22,388,956</u>	<u>\$ 21,550,120</u>	<u>\$ 20,924,114</u>	<u>\$ 20,628,069</u>
<u>Deferred Inflows of Resources:</u>					
Unavailable Revenue-Property Taxes	\$ 2,034,230	\$ 128,661	\$ 161,019	\$ 262,426	\$ -
<u>Net Position:</u>					
Invested in Capital Assets Net of Related Debt	\$ 2,083,448	\$ 2,106,041	\$ 3,779,686	\$ 3,575,274	\$ 4,385,994
Restricted for Federal and State Programs	235,106	218,714	218,872	253,366	328,551
Restricted for Debt Service	1,155,541	1,165,214	1,026,931	858,228	794,034
Restricted for Capital Projects	-	-	-	-	-
Restricted for Campus Activities	45,325	50,581	62,992	77,444	71,300
Unrestricted Net Position	(2,637,245)	3,424,753	3,479,031	3,823,689	4,456,151
Total Net Position	<u>\$ 882,175</u>	<u>\$ 6,965,303</u>	<u>\$ 8,567,512</u>	<u>\$ 8,588,001</u>	<u>\$ 10,036,030</u>

**FINANCIAL POLICIES OF THE DISTRICT . . . Basis of Accounting . . .** The accounting policies of the District substantially comply with the rules prescribed in the Texas State Board of Education’s Bulletin 679, Financial Accounting Manual. These accounting policies conform to generally accepted accounting principles applicable to state and local governments (see “APPENDIX B – Excerpts from the Troy Independent School District Annual Financial Report”).

**General Fund Balance . . .** The District’s goal for the operating fund is to have an unreserved fund balance at a minimum of 90 days of operations.

**Debt Service Fund Balance . . .** The Debt Service Fund accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest due. This is a budgeted fund for which the District’s policy is to maintain a level adequate to meet bonded debt obligations.

**Budgetary Procedures . . .** Budget development is a year round process. The Superintendent of Schools considers major financial issues and establishes the budget framework during the first half of the school year. Trustees approve the official budget in August.

## INVESTMENTS

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

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . .** Under Texas law, the District is authorized to invest in:

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("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 or their respective successors;
- (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) 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 (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (ii)(a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District;
- (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State;
- (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency;
- (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
- (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7;
- (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and is invested exclusively in obligations described in this paragraph, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and
- (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code), as amended, whose assets consist exclusively of the obligations that are described above.

A public funds investment pool described in (14) above must be continuously ranked no lower than "AAA," "AAAm" or at an equivalent rating by at least one nationally recognized rating service.

In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if:

- (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (11) through (13) above, or an authorized investment pool;
- (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District;
- (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and
- (iv) the agreement to lend securities has a term of one year or less.

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

The District is specifically prohibited from investing in:

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas 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 Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board 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) Texas law. No person may invest District funds without express written authority from the Board.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) 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, (5) 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 repurchase agreement, (6) restrict the investment in non-money market 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, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

## TABLE 9 – CURRENT INVESTMENTS

As of May 21, 2019, the District’s investable funds were invested in the following categories:

Type of Investment	% of Portfolio	Market Value
Lone Star Investment Pool	73.35%	\$ 5,655,464
Security Bank MM	19.67%	1,516,894
Certificates of Deposit	6.98%	537,871
	<u>100.00%</u>	<u>\$ 7,710,229</u>

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

## TAX MATTERS

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount

Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . .** The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

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

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## CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to securities brokers and others who subscribe to receive the information from the MSRB. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” 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 specified material events related to the guarantee to the MSRB.

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to certain information vendors 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 Tables numbered 1 through 4 and 6 through 9. The District will update and provide this information within 6 months after the end of each fiscal year ending in or after 2019. The District will additionally provide audited financial statements, being such information in APPENDIX B, when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2019. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. The District will provide the updated information to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB makes the information available to the public without charge through an internet portal as part of an expansion of its Electronic Municipal Market Access (“EMMA”) system. Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

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

The District’s current fiscal year end is August 31. Accordingly, it must provide updated information in Tables 1 through 4 and 6 through 9 by the last day of February in each year following the end of its fiscal year and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described herein, by August 31 unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**MATERIAL EVENT NOTICES . . .** The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) nonpayment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the District, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Order makes any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement.

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

governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in clauses (15) and (16) in the preceding paragraph and the definition of financial obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “Annual Reports.”

**AVAILABILITY OF INFORMATION . . .** The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of the Bonds free of charge through the MSRB’s Electronic Municipal Market Access (“EMMA”) system.

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

The District may amend its continuing disclosure agreement 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, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to 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 financial information and operating data so provided.

## **OTHER INFORMATION**

**RATING . . .** The Bonds have been rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding unlimited tax supported debt of the District are also rated “A+” by S&P without regard to credit enhancement. The District also has several bond issues outstanding which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. 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”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either of such rating companies, if in the judgment of either company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 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 Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

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



**LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

**LEGAL MATTERS . . .** The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, in substantially the form attached hereto as APPENDIX C. In connection with the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of this 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 in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions “THE BONDS” (except for “DTC Redemption Provision,” “Book-Entry-Only System,” “Bondholders’ Remedies,” “Purpose” and “Sources and Uses of Proceeds” as to which no opinion is expressed) and “CONTINUING DISCLOSURE OF INFORMATION” and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions, “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except under the subcaption “Possible Effects of Wealth Transfer Provisions on the District’s Financial Condition”), “TAX RATE LIMITATIONS (except for the last sentence of the fourth paragraph therein),” “TAX MATTERS,” “OTHER INFORMATION – Registration and Qualification of Bonds for Sale,” “OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER INFORMATION – Legal Matters” (except for the last three sentences of the first paragraph therein) and Bond Counsel is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

The various legal opinions to be delivered concurrently with the delivery of the 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

**FINANCIAL ADVISOR . . .** Specialized Public Finance Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

**UNDERWRITING . . .** The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on the inside cover page of this Official Statement, less an underwriting discount of \$113,650.95. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in the 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.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

**FORWARD-LOOKING STATEMENTS DISCLAIMER . . .** 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. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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 will prove to be accurate.

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

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

/s/ PAM BULLS  
President, Board of Trustees  
Troy Independent School District

ATTEST:

/s/ CARRIE TREES  
Secretary, Board of Trustees  
Troy Independent School District

**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

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**THE DISTRICT** . . . Troy Independent School District (the “District”) was established in 1896 to serve the children of the communities of Troy, Pendleton, Little Mexico, Belfalls and Oenaville. Located on Interstate 35 between Waco and Temple, Texas, Troy is a rural, agricultural-based community with small businesses and manufacturing companies. Four campuses serve approximately 1,388 students in early childhood through grade twelve. Troy Elementary, Mays Elementary and Raymond Mays Middle School were rated as Recognized. Troy Elementary, May Elementary and Troy High School received a rating of Academically Acceptable. One hundred seventy two teachers and support staff work together to provide a caring and challenging environment in the educational process of all Troy ISD children, following the Texas Education Agency’s goal of excellence and equity in achievement for all students.

Enrollment figures for the District is as follows:

Enrollment History		Enrollment History	
2003-04	1,258	2011-12	1,355
2004-05	1,244	2012-13	1,388
2005-06	1,215	2013-14	1,435
2006-07	1,279	2014-15	1,468
2007-08	1,284	2015-16	1,485
2008-09	1,296	2016-17	1,491
2009-10	1,303	2017-18	1,529
2010-11	1,316	2018-19	1,539
2010-11	1,316		

**LABOR MARKET PROFILE**

Bell County		
	April 2019	April 2018
Total Civilian Labor Force	144,347	142,220
Total Unemployment	4,579	5,461
Percent Unemployed	3.2%	3.8%
Total Employment	139,768	136,759
Falls County		
	April 2019	April 2018
Total Civilian Labor Force	6,687	6,656
Total Unemployment	184	236
Percent Unemployed	2.8%	3.5%
Total Employment	6,503	6,420
State of Texas		
	April 2019	April 2018
Total Civilian Labor Force	14,000,988	13,817,292
Total Unemployment	415,823	507,416
Percent Unemployed	3.0%	3.7%
Total Employment	13,585,165	13,309,876

Source: Texas Workforce Commission

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**APPENDIX B**

EXCERPTS FROM THE  
TROY INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
For the Year Ended August 31, 2018

The information contained in this APPENDIX consists of excerpts from the Troy Independent School District Annual Financial Report for the Year Ended August 31, 2018, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Troy Independent School District  
Troy, TX

### 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 Troy Independent School District as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 Troy Independent School District, as of August 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 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 Troy Independent School District's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying 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* (Uniform Guidance), and is not a required part of the basic financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of Troy Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Troy Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Troy Independent School District's internal control over financial reporting and compliance.

*Judwich, Montgomery, & Steyer, P.C.*

Temple, TX  
November 26, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS TROY INDEPENDENT SCHOOL DISTRICT

As management of Troy Independent School District, our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2018. Please read it in conjunction with the independent auditors' report on pages 3-4, and the District's financial statements, which begin on page 15.

### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$882,175 (*net position*). Of this amount, the District has a negative unrestricted net position of (\$2,637,245).
- The District recorded a prior period adjustment for implementation of new GASB rules effective this year for \$7,207,854. The total other post-employment benefit (OPEB) liability at year-end is \$4,110,567 which is the result of GASB No. 75 being implemented for the fiscal year ending August 31, 2018.
- The District's total net position increased by \$1,124,726 as a result of this year's operations, or a little more than 16%, in comparison to prior year. A large amount of the increase was due to GASB 75 implementation and the results of funding changes for GASB 68 and GASB 75 during the fiscal year ending August 31, 2018.
- During the year, the District had net expenses of \$12,207,532 which were less than the \$13,332,258 generated in tax and other revenues for governmental programs.
- The General Fund ended the year with an unassigned fund balance of \$4,338,408.
- The resources available for appropriation were \$248,970 more than budgeted for the General Fund.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on page 15 and 17). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of the total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District. The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for non-major funds are presented immediately following the required supplementary information. The section labeled TEA Required Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

# MANAGEMENT'S DISCUSSION AND ANALYSIS TROY INDEPENDENT SCHOOL DISTRICT

## **Reporting the District as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 15. Its primary objective is to show whether the District has improved or deteriorated as a result of the year's activities. The statement of net position includes all of the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the same used by most private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District is combined into one kind of activity:

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

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 18 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (such as campus activities).

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
TROY INDEPENDENT SCHOOL DISTRICT**

**Reporting the District's Most Significant Funds (continued)**

***Fund Financial Statements (continued)***

***Governmental Funds (continued)***

Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental financial statements.

**The District as Trustee**

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 22 and 23. We exclude these resources from the District's other financial statements because the District cannot use these assets to support its operations. The District is only responsible for ensuring the assets reported in these funds are used for their intended purposes.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

We will present both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities. Net position of the District's governmental activities decreased from \$6,965,303 to \$882,175. The net position for the year under audit, increased by \$1,124,726.

Unrestricted net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$2,637,245) at August 31, 2018. The decrease in governmental net position was the result of instruction and pension expenditures incurred by the District during the current year. In addition, there was a prior period adjustment for \$7,207,854 that was previously discussed on page 5.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
TROY INDEPENDENT SCHOOL DISTRICT**

**TABLE I  
NET POSITION**

	Governmental Activities 2018	Governmental Activities 2017
Current and other assets	\$ 6,633,637	\$ 6,963,549
Capital assets	20,465,208	21,417,437
Deferred outflow related to TRS Pension	981,309	1,101,934
Deferred outflow related to TRS OPEB	64,391	-
Total assets	<u>28,144,545</u>	<u>29,482,920</u>
Other liabilities	1,572,777	1,755,668
Long-term liabilities	17,486,622	18,401,339
Net pension liability (District's Share)	2,058,174	2,231,949
Net OPEB liability (District's Share)	4,110,567	-
Deferred inflow related to TRS Pension	314,772	128,661
Deferred inflow related to TRS OPEB	1,719,458	-
Total liabilities	<u>27,262,370</u>	<u>22,517,617</u>
Net position:		
Invested in capital assets, net of related debt	2,083,448	2,106,041
Restricted	1,435,972	1,434,509
Unrestricted	(2,637,245)	3,424,753
Total net position	<u>\$ 882,175</u>	<u>\$ 6,965,303</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
TROY INDEPENDENT SCHOOL DISTRICT**

**TABLE II  
CHANGE IN NET POSITION**

	Governmental Activities 2018	Governmental Activities 2017
Revenues:		
Program revenues:		
Charges for services	\$ 701,111	\$ 641,827
Operating grants and contributions	(741,711)	1,409,048
General revenues:		
Maintenance and operations taxes	3,448,924	3,208,734
Debt service taxes	833,470	834,579
State aid - formula grants and other grants	8,956,620	8,906,821
Investment earnings	121,501	63,969
Miscellaneous	12,343	85,120
Total revenues	<u>13,332,258</u>	<u>15,150,098</u>
Expenses:		
Instruction, curriculum, and media services	6,141,833	8,335,484
Instructional and school leadership	633,177	946,440
Student support services	872,143	1,065,106
Food services	673,752	855,951
Extracurricular activities	814,932	919,704
General administration	278,367	363,902
Facilities maintenance, security, & data processing	2,072,209	1,960,315
Debt services - interest & fees	473,224	544,186
Payments to other districts/agents	141,064	137,921
Payments to tax increment fund	70,423	63,929
Other governmental charges	36,408	36,238
Total expenses	<u>12,207,532</u>	<u>15,229,176</u>
Change in net position	1,124,726	(79,078)
Net position - beginning	6,965,303	8,567,512
Prior period adjustment	* (7,207,854)	(1,523,131)
Net position - ending	<u>\$ 882,175</u>	<u>\$ 6,965,303</u>

\* See Section IV, Footnote U.

## MANAGEMENT'S DISCUSSION AND ANALYSIS TROY INDEPENDENT SCHOOL DISTRICT

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The District's total revenues decreased by \$1,817,840. This is due to a few factors. First, overall tax revenue increased by approximately \$239,000 which is due to appreciation of tax base overall assets. These increases are offset by the implementation of OPEB and a negative on behalf accrual amount of \$2,165,396 that is required by GASB. See section IV, footnote V of footnotes to the financial statements for more discussion on this item. The total cost of all programs and services decreased from the prior year primarily due to the implementation of GASB 75 at the government wide level. The implementation of GASB 75 resulted in a \$3.7 million decrease in all functions but largest portion was for function 11 for fiscal year ending August 31, 2018.

The cost of all governmental activities this year was \$12,207,532 compared to \$15,229,176 in the prior year. The decreases were discussed in previous paragraph. At the General Fund level based on exhibit C-3, expenses increased approximately \$849,000 from prior year. A large portion of expense increases were due to several repairs and maintenance expenses incurred in current year combined with increases in instruction for fiscal year ending August 31, 2018.

### THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 20), reported a combined fund balance of \$5,774,380, which is less than last year's total of \$183,069. Included in this year's total change in fund balance is a decrease of \$215,846 in the District's general fund, combined with increases of \$21,641 in the District's debt service fund and \$11,136 in the District's special revenue funds.

Over the course of the year, the Board of Trustees revised the District's budget a few times. The budget amendments were due to increases in transportation costs and facility maintenance costs.

The District's general fund balance of \$4,369,488 reported on page 20 differs from the general fund's budgetary fund balance of \$4,120,518 reported in the budgetary comparison schedule on page 63 due to the a favorable variances in revenues and expenses.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At August 31, 2018, the District had approximately \$20,465,208, invested in a broad range of capital assets, including instructional facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$952,229 compared to last year due to purchases that were less than current year depreciation.

This year's major additions included:

- 1 bus at a cost of \$95,442
- Trim Mower at a cost of \$30,346
- Saw at a cost of \$7,174

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

#### Debt

At year-end, the District had \$18,381,760, in bonds and leases outstanding versus \$19,311,396 last year, a decrease due to amortization of bond premiums, and current year debt principal payments. In addition, the District had \$72,418 in vested accrued compensated absences compared to \$87,940 at prior year-



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
TROY INDEPENDENT SCHOOL DISTRICT**

**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

**Debt (continued)**

end. Also, the District had \$2,058,174 in net pension liability at year-end compared to \$2,231,949 at prior year-end. In addition, the District had \$4,110,567 in OPEB Liability at year-end compared to \$7,256,998 at prior year-end (after prior period adjustment) as a result of GASB 75 implementation for fiscal year ending August 31, 2018.

More detailed information about the District's long-term liabilities is presented in the Notes to the Financial Statements starting on pages 41 through 44.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal year 2018-2019 budget and tax rate. One of those factors is the board approval of salary increases to remain competitive in the market by increasing the wage scales above the state minimum in order to attract and retain highly qualified teachers. The above indicators were taken into account when adopting the general fund budget for 2018-2019. Amounts available for appropriation in the 2018-2019 budget are \$12,724,590 which is larger than the appropriated 2017-2018 budget of \$12,466,336.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Troy Independent School District, PO Box 409, Troy, Texas 76579. The District's business office phone number is 254-938-2595.

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**BASIC FINANCIAL STATEMENTS**

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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 5,793,275
1220 Property Taxes - Delinquent	317,545
1230 Allowance for Uncollectible Taxes	(63,509)
1240 Due from Other Governments	586,326
Capital Assets:	
1510 Land	363,820
1520 Buildings, Net	19,242,641
1530 Furniture and Equipment, Net	364,354
1540 Other Capital Assets, Net	359,510
1560 Library Books and Media, Net	134,883
1000 Total Assets	27,098,845
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS Pension	981,309
1706 Deferred Outflow Related to TRS OPEB	64,391
1700 Total Deferred Outflows of Resources	1,045,700
<b>LIABILITIES</b>	
2110 Accounts Payable	80,272
2150 Payroll Deductions and Withholdings	1,544
2160 Accrued Wages Payable	510,507
2200 Accrued Expenses	10,406
2300 Unearned Revenue	2,492
Noncurrent Liabilities:	
2501 Due Within One Year	967,556
2502 Due in More Than One Year	17,486,622
2540 Net Pension Liability (District's Share)	2,058,174
2545 Net OPEB Liability (District's Share)	4,110,567
2000 Total Liabilities	25,228,140
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Resource Inflow Related to TRS Pension	314,772
2606 Deferred Resource Inflow Related to TRS OPEB	1,719,458
2600 Total Deferred Inflows of Resources	2,034,230
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	2,083,448
3820 Restricted for Federal and State Programs	235,106
3850 Restricted for Debt Service	1,155,541
3870 Restricted for Campus Activities	45,325
3900 Unrestricted	(2,637,245)
3000 Total Net Position	\$ 882,175

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 5,775,382	\$ 101,871	\$ (692,004)	\$ (6,365,515)
12 Instructional Resources and Media Services	312,540	-	(53,967)	(366,507)
13 Curriculum and Instructional Staff Development	53,911	-	(8,893)	(62,804)
21 Instructional Leadership	54,830	-	(6,886)	(61,716)
23 School Leadership	578,347	-	(138,423)	(716,770)
31 Guidance, Counseling and Evaluation Services	262,137	-	(54,018)	(316,155)
33 Health Services	104,851	-	(26,526)	(131,377)
34 Student (Pupil) Transportation	505,155	-	(57,141)	(562,296)
35 Food Services	673,752	270,369	477,079	73,696
36 Extracurricular Activities	814,932	328,871	(54,842)	(540,903)
41 General Administration	278,367	-	(29,682)	(308,049)
51 Facilities Maintenance and Operations	1,779,899	-	(38,897)	(1,818,796)
52 Security and Monitoring Services	14,947	-	-	(14,947)
53 Data Processing Services	277,363	-	(57,511)	(334,874)
72 Debt Service - Interest on Long-Term Debt	472,224	-	-	(472,224)
73 Debt Service - Bond Issuance Cost and Fees	1,000	-	-	(1,000)
93 Payments Related to Shared Services Arrangements	141,064	-	-	(141,064)
97 Payments to Tax Increment Fund	70,423	-	-	(70,423)
99 Other Intergovernmental Charges	36,408	-	-	(36,408)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 12,207,532</b>	<b>\$ 701,111</b>	<b>\$ (741,711)</b>	<b>(12,248,132)</b>
Data Control Codes	<b>General Revenues:</b>			
	<b>Taxes:</b>			
MT	Property Taxes, Levied for General Purposes			3,448,924
DT	Property Taxes, Levied for Debt Service			833,470
SF	State Aid - Formula Grants			8,956,620
IE	Investment Earnings			121,501
MI	Miscellaneous Local and Intermediate Revenue			12,343
TR	<b>Total General Revenues</b>			<b>13,372,858</b>
CN	Change in Net Position			1,124,726
NB	Net Position - Beginning			6,965,303
PA	Prior Period Adjustment			(7,207,854)
NE	Net Position--Ending			<b>\$ 882,175</b>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 4,364,374	\$ 1,109,968	\$ 318,933	\$ 5,793,275
1220 Property Taxes - Delinquent	243,678	73,867	-	317,545
1230 Allowance for Uncollectible Taxes	(48,736)	(14,773)	-	(63,509)
1240 Due from Other Governments	465,922	-	120,404	586,326
1260 Due from Other Funds	140,327	14,493	-	154,820
1000 Total Assets	<u>\$ 5,165,565</u>	<u>\$ 1,183,555</u>	<u>\$ 439,337</u>	<u>\$ 6,788,457</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 78,242	\$ -	\$ 2,030	\$ 80,272
2150 Payroll Deductions and Withholdings Payable	1,544	-	-	1,544
2160 Accrued Wages Payable	496,724	-	13,783	510,507
2170 Due to Other Funds	14,493	-	140,327	154,820
2200 Accrued Expenditures	10,132	-	274	10,406
2300 Unearned Revenue	-	-	2,492	2,492
2000 Total Liabilities	<u>601,135</u>	<u>-</u>	<u>158,906</u>	<u>760,041</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	194,942	59,094	-	254,036
2600 Total Deferred Inflows of Resources	<u>194,942</u>	<u>59,094</u>	<u>-</u>	<u>254,036</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	235,106	235,106
3480 Retirement of Long-Term Debt	-	1,124,461	-	1,124,461
Committed Fund Balance:				
3525 Retirement of Loans or Notes Payable	31,080	-	-	31,080
3545 Campus Activities	-	-	45,325	45,325
3600 Unassigned Fund Balance	4,338,408	-	-	4,338,408
3000 Total Fund Balances	<u>4,369,488</u>	<u>1,124,461</u>	<u>280,431</u>	<u>5,774,380</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 5,165,565</u>	<u>\$ 1,183,555</u>	<u>\$ 439,337</u>	<u>\$ 6,788,457</u>

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



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

EXHIBIT C-1R

<b>Total Fund Balances - Governmental Funds</b>	\$	5,774,380
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$40,257,915 and the accumulated depreciation was (\$18,840,478). 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. Note: Beginning Balances related to TRS are NOT included in this amount.		2,018,101
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase net position.		950,938
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$981,309, a deferred resource inflow in the amount of \$314,772, and a net pension liability in the amount of \$2,058,174. These changes resulted in a decrease in net position of \$1,391,637.		(7,157,271)
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 \$64,391, a deferred resource outflow in the amount of \$1,719,458, and a net OPEB liability in the amount of \$4,110,567. These changes resulted in a decrease in net position of \$5,765,634.		
Together, these GASB 68 and 75 adjustments resulted in overall decrease to net position.		
4 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,085,191)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, 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.		381,218
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>882,175</b>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 3,765,279	\$ 872,527	\$ 538,877	\$ 5,176,683
5800 State Program Revenues	8,992,517	485,495	257,801	9,735,813
5900 Federal Program Revenues	-	-	823,778	823,778
5020 Total Revenues	<u>12,757,796</u>	<u>1,358,022</u>	<u>1,620,456</u>	<u>15,736,274</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	7,097,898	-	516,413	7,614,311
0012 Instructional Resources and Media Services	391,371	-	-	391,371
0013 Curriculum and Instructional Staff Development	70,301	-	-	70,301
0021 Instructional Leadership	70,659	-	2,788	73,447
0023 School Leadership	788,836	-	-	788,836
0031 Guidance, Counseling and Evaluation Services	353,772	-	3,177	356,949
0033 Health Services	147,624	-	-	147,624
0034 Student (Pupil) Transportation	580,123	-	-	580,123
0035 Food Services	-	-	819,357	819,357
0036 Extracurricular Activities	567,183	-	267,585	834,768
0041 General Administration	335,541	-	-	335,541
0051 Facilities Maintenance and Operations	1,885,996	-	-	1,885,996
0052 Security and Monitoring Services	14,947	-	-	14,947
0053 Data Processing Services	355,017	-	-	355,017
Debt Service:				
0071 Principal on Long-Term Debt	62,362	800,000	-	862,362
0072 Interest on Long-Term Debt	4,117	535,381	-	539,498
0073 Bond Issuance Cost and Fees	-	1,000	-	1,000
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	141,064	-	-	141,064
0097 Payments to Tax Increment Fund	70,423	-	-	70,423
0099 Other Intergovernmental Charges	36,408	-	-	36,408
6030 Total Expenditures	<u>12,973,642</u>	<u>1,336,381</u>	<u>1,609,320</u>	<u>15,919,343</u>
1200 Net Change in Fund Balances	(215,846)	21,641	11,136	(183,069)
0100 Fund Balance - September 1 (Beginning)	<u>4,585,334</u>	<u>1,102,820</u>	<u>269,295</u>	<u>5,957,449</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,369,488</u>	<u>\$ 1,124,461</u>	<u>\$ 280,431</u>	<u>\$ 5,774,380</u>

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

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

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(183,069)
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 2018 capital outlays and debt principal payments is to increase net position.		950,938
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.		(1,085,191)
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.		132,789
GASB 68 required 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 the ending net position to increase by \$221,799. 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 pension totaling (\$210,964). Finally, the proportionate share of the TRS pension expense of the plan as a whole had to be recorded. The net pension expense decreased the change in net position by (\$143,796). The net result is a decrease in net position of (\$132,961).		1,309,259
GASB 75 required 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 \$63,746. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction net pension liability. This caused a decrease in net position totaling (\$49,144). Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$1,427,618. The net result is an increase in net position of \$1,442,220.		
The net effect of GASB 68 and 75 for fiscal year 2018 is to increase net position.		
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,124,726</b>

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

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

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 32,390	\$ 60,088
Total Assets	<u>32,390</u>	<u>\$ 60,088</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 60,088
Total Liabilities	<u>-</u>	<u>\$ 60,088</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>32,390</u>	
Total Net Position	<u>\$ 32,390</u>	

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

TROY INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2018

	Private Purpose Trust Fund
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 12,912
Total Additions	<u>12,912</u>
<b>DEDUCTIONS:</b>	
Other Operating Costs	<u>10,250</u>
Total Deductions	<u>10,250</u>
Change in Net Position	2,662
Total Net Position - September 1 (Beginning)	<u>29,728</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 32,390</u></u>

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statements No. 61, "The Financial Reporting Entity". There are no component units included within the reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes, state funding revenue, grants and other intergovernmental revenue.

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

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

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements. Revenue is 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 net increase and decrease in current assets (i.e., revenue and other financing sources and expenditures and other financing uses).

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

Revenue from local sources consists primarily of property taxes. Property tax revenue and revenue received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenue is recorded as revenue when received in cash because it is 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 when all eligibility requirements have been met and to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as deferred revenue until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in government funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **General Fund** – The general fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. **Debt Service Fund** – The debt service is used to account for general long-term debt principal and interest for debt issues and other long-term debts for which a tax has been dedicated.

Additionally, the District reports the following fund types:

Governmental Funds:

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

Fiduciary Funds:

2. **Private- Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District’s Private Purpose Trust Funds are scholarship funds donated by several benefactors.
3. **Agency funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s Agency Fund is a Student Activity Fund.

**E. OTHER ACCOUNTING POLICIES**

1. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year they are incurred.
3. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are



**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. OTHER ACCOUNTING POLICIES (continued)**

3. (Continued)  
reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.
4. Cash and cash investments are combined in the financial statements. Cash deposits consist of demand deposits with financial institutions and petty cash held at the District. Investments consist of investment pools. These investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The District considers quoted market price at August 31, 2018, to be the fair value of the investments.
5. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".
6. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.
7. Property taxes receivable is shown net of an allowance for uncollectible amounts. The property tax receivable allowance is based on the District's historical experience in collecting property taxes.
8. Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. On January 31 of each year, a tax lien attaches to the property to secure payment of all taxes, penalties, and interest ultimately imposed.
9. Tax collections are prorated between the general fund and debt service fund based on the tax rate approved by the Board. For the year ended August 31, 2018, the rates were \$1.04 and \$0.2502, respectively, per \$100 of assessed value.
10. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the general and debt service funds are based on historical experience in collecting property taxes. Uncollectible personal taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. OTHER ACCOUNTING POLICIES (continued)**

11. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
  
12. Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities column of the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at estimated fair market value at the date of donation.

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

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

Assets	Years
Buildings	7-39
Building Improvements	7-39
Vehicles	5-7
Furniture and Equipment	5-20

13. Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.
  
14. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The amount of state foundation revenue a school 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. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2018, will change.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. OTHER ACCOUNTING POLICIES (continued)**

15. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display the codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.
16. It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the District does have a policy to pay any amounts when employees separate from service with the District. Vacation leave does not accumulate for any employees and the District does not offer a vacation buyback plan. Vacation must be taken in the year earned or the employee forfeits any right to compensation. Accumulated vested sick leave at August 31, 2018 is \$72,418 and is included as liability in government-wide financial statements.
17. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. As of August 31, 2018, fund balances of the governmental funds are classified as follows:
  - Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.
  - Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
  - Committed – Amounts that can be used only for specific purposes determined by a formal action of the District Board of Trustees. The District Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the District Board of Trustees.
  - Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.
  - Unassigned – All other spendable amounts.
18. In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note IV. L. and the RSI section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. OTHER ACCOUNTING POLICIES (continued)**

18. (Continued)

deferred inflows of resources or deferred outflows of resources, depending on the nature of the change, in the period incurred.

Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

19. The District applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District’s investments are accounted for using the cost amortization method.

20. Other Post-employee Benefit Plans (OPEB)

The District applied GASB Statement No. 75, for Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. With GASB No. 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. In government-wide financial statements, OPEB obligations are required to be recognized and disclosed using the accrual basis of accounting (see Note IV. M. and the RSI section immediately following the notes to the financial statements). The District recognizes a net OPEB liability for these OPEB liabilities. Changes in the net OPEB liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change, in the period incurred.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

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

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

Exhibit C-1R provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Position
Land	\$ 363,820	\$ -	\$ 363,820	
Buildings and improvements	35,107,325	(15,006,767)	20,100,558	
Furniture and equipment	2,634,204	(2,207,456)	426,748	
Vehicles	2,017,683	(1,626,255)	391,428	
Books and media	134,883	-	134,883	
Change in Net Position				<u>\$ 21,417,437</u>
Long-term Liabilities at the Beginning of the Year			Payable at the Beginning of the Year	
Bonds payable			17,837,426	
Capital lease payable			125,644	
Bond premium			1,300,663	
Accumulated vested compensated absences			87,940	
Accrued interest payable			47,663	
Change in Net Position				<u>(19,399,336)</u>
Net Adjustment to Net Position				<u>\$ 2,018,101</u>

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

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

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

Exhibit C-4 provides a reconciliation between the net change in fund balances as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the change in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation and C-1R 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. In addition, current year borrowings, bond refunding, bond issuances, capital lease borrowings, etc. are shown as other sources/uses in fund financial statements but should be shown as increases in debt liabilities or reductions in debt liabilities in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
Current Year Capital Outlay			
Furniture and equipment	\$ 37,520		
Vehicles	95,442		
Total Capital Outlay	\$ 132,962	\$ 132,962	\$ 132,962
Debt Principal Payments, Refunding, Issuances			
Bond Principal Payments	\$ 800,000		
Change in accrued Interest on Bonds	3,605		
Capital Lease Principal Payments	62,362		
Total Activity	\$ 865,967	\$ 865,967	\$ 865,967
Accreted Interest	(47,991)		
Total Accreted Interest Activity	(47,991)	\$ (47,991)	\$ (47,991)
Total Adjustments to Net Position		\$ 950,938	\$ 950,938

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

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

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

Another element of the reconciliation on Exhibit C-1R and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items and affects both the net position balance and the change in net position. The details for this element are as follows:

Adjustment to Revenue and Deferred Inflows of Resources	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
Adjust Taxes Collected from Prior Year Levies Uncollected Taxes (assumed collectible) from Current Year Levy	\$ 90,626 90,734	\$ (90,626) 90,734	\$ - 90,734
Uncollected Taxes (assumed collectible) from Prior Year Levy	163,302	-	163,302
Adjustments to Prior Year Estimate of Uncollectible Taxes	5,499	5,499	-
Amortize premiums on bonds	111,660	111,660	111,660
Change in vested compensated absences	15,522	15,522	15,522
Total		<u>\$ 132,789</u>	<u>\$ 381,218</u>

Another element of the reconciliation on Exhibit C-1R and C-4 is described as implementation of GASB 68 and 71 to recognize the District's proportionate share of the net pension liability. This adjustment is the result of several items and affects both the net position balance and the change in net position. The details for this element are as follows:

Net Change in Pension Liability	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
Deferred Outflows Impact	\$ 981,309	\$ -	\$ 981,309
Deferred Inflows (Increased) Decreased	314,772	-	(314,772)
Net Pension Liability	2,058,174	-	(2,058,174)
Contributions Made After Measurement Date	221,799	221,799	-
Contributions Made Before Measurement Date	210,964	(210,964)	-
Net Pension Expense	143,796	(143,796)	-
Total	<u>\$ 3,930,814</u>	<u>\$ (132,961)</u>	<u>\$ (1,391,637)</u>

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

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

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

Another element of the reconciliation on Exhibit C-1R and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items and affects both the net position balance and the change in net position. The details for this element are as follows:

<u>The net change in net OPEB liability</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
Deferred Resource Outflow	\$ 64,391	\$ -	\$ 64,391
Deferred Resource Inflow	1,719,458	-	(1,719,458)
Net OPEB Liability	4,110,567	-	(4,110,567)
Net Pension Expense	(1,427,618)	1,427,618	-
De-expended Expenditures made in 2017	63,746	63,746	-
Expended Pension Expenditures from PY	49,144	(49,144)	-
Total	<u>\$ 4,579,688</u>	<u>\$ 1,442,220</u>	<u>\$ (5,765,634)</u>



**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contract regulations.

The Board of Trustees adopts an "appropriated budget" for the general fund, debt service fund and the food service fund which is included in the special revenue funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The general fund budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

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

1. Prior to August 20<sup>th</sup>, the District prepares a budget for the next succeeding fiscal year beginning September 1st.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, some amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statues authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments are as follows:

The funds of the District must be deposited and invested under the terms of a contract, the contents of which are set out in the **Depository Contract Law**. 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.

At August 31, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts include in temporary investments) was \$1,832,529 and the bank balance was \$2,120,900. The District's cash deposits at August 31, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

- a. Depository: Bancorp South, Temple, Texas
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$2,500,000.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,154,046 and occurred during the month of August.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

Policies Governing Deposits and Investments

1. Foreign Currency Risk - The District's deposits and investments are not exposed to foreign currency risk.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**A. DEPOSITS AND INVESTMENTS (continued)**

2. Custodial Credit – The District’s policy is to be collateralized. The District was fully collateralized during the year.
3. Interest Rate Risk – The District has no debt securities which have interest rate risk.
4. Other Credit Risk Exposure – The District does not invest in debt securities directly; however there are some in the pools the District invests in.

The Lonestar Investment Pool has been established for governmental entities pursuant to the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC’s rule 2a-7 of the Investment Company Act of 1940. The Lonestar Investment Pool is rated AAA by Standard & Poor’s.

5. Concentration Risk- The District invests only in pools. There are no positions of 5 percent or more in the securities of a single issuer.

The District’s temporary investments at August 31, 2018 which are classified within Cash and Cash Equivalents, are shown below:

	Book Value	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-5 Years	Credit Rating
Certificates of deposit	503,599	503,599	11%	503,599	\$ -	N/A
Investments in Pools:						
Lonestar Investment Pool	\$ 3,960,746	\$ 3,960,746	89%	3,960,746	-	AAA
<b>Total</b>	<b>\$ 4,464,345</b>	<b>\$ 4,464,345</b>	<b>100%</b>	<b>\$ 4,464,345</b>	<b>\$ -</b>	

**B. PROPERTY TAXES**

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

**C. DELINQUENT TAXES RECEIVABLE**

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at August 31, 2018 consisted of the following individual fund balances:

Fund	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Funds:		
General Fund	\$ 140,327	\$ 14,493
Debt Service Fund	<u>14,493</u>	<u>-</u>
Total Major Funds	154,820	14,493
Nonmajor Funds:		
Special Revenue Funds	<u>-</u>	<u>140,327</u>
Total Nonmajor Funds	-	140,327
Total	<u>\$ 154,820</u>	<u>\$ 154,820</u>

The purpose of the interfund balances are mainly to account for temporary cash shortages and the amounts are anticipated to be repaid in the next fiscal year.

The District reports interfund transfers between many of its funds. These routine transfers are consistent with the operating activities of the funds.

Interfund transfers for the year ended August 31, 2018, consisted of \$0.

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2018 were as follows:

	<u>Property Taxes (Net of Allowance)</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Total Receivables</u>
Governmental Funds:				
General Fund	\$ 194,942	\$ 465,922	\$ 140,327	\$ 801,191
Debt Service Fund	59,094	-	14,493	73,587
Nonmajor Governmental Funds	<u>-</u>	<u>120,404</u>	<u>-</u>	<u>120,404</u>
Total - Governmental Funds	<u>\$ 254,036</u>	<u>\$ 586,326</u>	<u>\$ 154,820</u>	<u>\$ 995,182</u>

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES (continued)**

Payables at August 31, 2018 were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Accrued Expenditures</u>	<u>Total Payables</u>
Governmental Funds:					
General Fund	\$ 78,242	\$ 498,268	\$ 14,493	\$ 10,132	\$ 601,135
Nonmajor Governmental Funds	<u>2,030</u>	<u>13,783</u>	<u>140,327</u>	<u>274</u>	<u>156,414</u>
Total - Governmental Funds	<u>\$ 80,272</u>	<u>\$ 512,051</u>	<u>\$ 154,820</u>	<u>\$ 10,406</u>	<u>\$ 757,549</u>

**F. CAPITAL ASSET ACTIVITY**

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balances</u>
Governmental activities:				
Land	\$ 363,820	\$ -	\$ -	\$ 363,820
Buildings and Improvements	35,107,325	-	-	35,107,325
Furniture and Equipment	2,634,204	37,520	-	2,671,724
Vehicles	2,017,683	95,442	-	2,113,125
Books and Media	134,883	-	-	134,883
Total at Historic Costs	<u>40,257,915</u>	<u>132,962</u>	<u>-</u>	<u>40,390,877</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(15,006,767)	(857,917)	-	(15,864,684)
Furniture and Equipment	(2,207,456)	(99,914)	-	(2,307,370)
Vehicles	<u>(1,626,255)</u>	<u>(127,360)</u>	<u>-</u>	<u>(1,753,615)</u>
Total Accumulated Depreciation	<u>(18,840,478)</u>	<u>(1,085,191)</u>	<u>-</u>	<u>(19,925,669)</u>
Governmental Activities Capital Assets, Net	<u>\$ 21,417,437</u>	<u>\$ (952,229)</u>	<u>\$ -</u>	<u>\$ 20,465,208</u>

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**F. CAPITAL ASSET ACTIVITY (continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 569,553
Instructional Resources and Media Services	25,068
Curriculum Development	5,534
Instructional Leadership	5,328
School Leadership	78,134
Guidance Counseling & Evaluation Services	35,269
Health Services	10,047
Student (Pupil) Transportation	123,881
Food Services	40,576
Extracurricular Activities	111,471
General Administration	24,916
Facilities Maintenance and Operations	24,327
Data Processing Services	<u>31,087</u>
 Total Depreciation Expense	 <u><u>\$ 1,085,191</u></u>

**G. OPERATING LEASE OBLIGATIONS**

During the year ended August 31, 2016, the District entered into operating leases for copiers. The copier lease agreements call for monthly payments of \$1,017 over sixty months with no bargain purchase and no other items within the lease that would trigger capital lease treatment. Therefore it has been categorized as an operating lease. The future minimum lease payments for these operating leases at August 31, 2018 are as follows:

Year Ending August 31	Amount
2019	\$ 12,208
2020	12,208
2021	<u>5,080</u>
	<u><u>\$ 29,496</u></u>

The total office equipment lease payments related to this operating lease were \$12,208 for fiscal year ending August 31, 2018.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**H. CAPITAL LEASE OBLIGATION**

During the year ended August 31, 2017, the District entered into a capital lease for a bus. The bus capital lease agreement requires an annual payment of \$33,294 over three years with the title transferring to the District upon completion of the financing terms.

During the year ended August 31, 2015, the District entered into a capital lease for a bus. The bus capital lease agreement requires an annual payment of \$33,210 over three years with the title transferring to the District upon completion of the financing terms.

The District accounts for short term debts through appropriate funds. Short-term debts include leases made in accordance with the provisions of the Texas Education Code. The capital lease obligations are as follows:

<u>Date of Issuance and Purpose</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Amounts Outstanding 9/1/2017</u>	<u>(Retired) Current Year</u>	<u>Amount Outstanding 8/31/2018</u>	<u>Interest for the Current Year</u>
10/21/2014 Bus Capital Lease	2.550%	\$ 94,689	\$ 32,366	\$ (32,366)	\$ -	\$ 846
12/19/2016 Bus Capital Lease	3.500%	<u>93,278</u>	<u>93,278</u>	<u>(29,996)</u>	<u>63,282</u>	<u>3,271</u>
Total		<u>\$ 187,967</u>	<u>\$ 125,644</u>	<u>\$ (62,362)</u>	<u>\$ 63,282</u>	<u>\$ 4,117</u>

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 31,080	\$ 2,214	\$ 33,294
2020	<u>32,202</u>	<u>1,092</u>	<u>33,294</u>
	<u>\$ 63,282</u>	<u>\$ 3,306</u>	<u>\$ 66,588</u>

The District paid \$4,117 in interest related to this obligation during the fiscal year ending August 31, 2018.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**I. BONDS**

Current requirements for principal and interest expenditures are accounted for in the debt service fund. A summary of changes in long-term debt for the year ended August 31, 2018, is as follows:

Date of Issuance and Purpose	Interest Rate	Original Issue	Amounts Outstanding 9/1/2017	Current Year Accreted Interest	(Retired or Refinanced) Current Year	Amount Outstanding 8/31/2018	Interest for the Current Year
09/26/2015 Unlimited Tax School Building & Refunding Bonds, Series 2005	3.42%	\$ 4,659,995	\$ 1,110,000	\$ -	\$ (545,000)	\$ 565,000	\$ 37,962
08/01/2008 Unlimited Tax School Building Bond, Series 2008	2.0 - 4.9%	16,899,998	589,847	27,885	-	617,732	-
05/01/2012 Unlimited Tax School Building Bond, Series 2012	2.0 - 4.0%	8,994,997	9,652,579	20,106	(70,000)	9,602,685	282,894
01/05/2014 Unlimited Tax School Building, Series 2014	2-3.5%	6,975,000	6,485,000	-	(185,000)	6,300,000	214,525
<b>Total</b>		<b>\$ 37,529,990</b>	<b>\$ 17,837,426</b>	<b>\$ 47,991</b>	<b>\$ (800,000)</b>	<b>\$ 17,085,417</b>	<b>\$ 535,381</b>



**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**I. BONDS (continued)**

Debt service requirements are as follows:

Year Ending August 31,	Principal	Interest	Total
2019	\$ 820,000	\$ 511,643	\$ 1,331,643
2020	687,732	487,220	1,174,952
2021	755,000	485,820	1,240,820
2022	775,000	463,920	1,238,920
2023	800,000	440,294	1,240,294
2024-2028	4,450,000	1,760,818	6,210,818
2029-2033	5,122,685	1,083,771	6,206,456
2034-2038	3,675,000	288,514	3,963,514
	<u>\$ 17,085,417</u>	<u>\$ 5,522,000</u>	<u>\$ 22,607,417</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management indicates that the District is in compliance with all significant limitations and restrictions at August 31, 2018.

During the fiscal years ended August 31, 2012 and 2014, the District refunded a portion of the 2008 Series Bonds with the 2012 and the 2014 Series Bonds at a lower interest rate. There is bond premium amortizations related to the 2012 and 2014 issuances that are being amortized over the life of those bonds. There is also a bond premium that was created from Capital Appreciation Bonds issued for the 2008 bonds. It is also being amortized over the life of the 2008 Capital Appreciation Bonds. The unamortized bond premium for all three issuances at August 31, 2018 was \$1,189,003 and the amortization expense for the fiscal year 2018 was \$111,660. The amortization of this premium is annually offset against interest expense until the premiums are fully amortized.

**J. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

Upon retirement of certain employees, the District pays accrued sick leave in a lump sum cash payment to such employee or his/her estate. Balance of accrued sick pay for qualified employees at August 31, 2018 is \$72,418.

**K. LONG-TERM LIABILITIES**

The District's long-term liabilities consist of bond indebtedness, capital lease obligation, and net pension liability. The current requirements for general obligation bonds and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**K. LONG-TERM LIABILITIES (continued)**

**Changes in Long-term Liabilities**

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 17,837,426	\$ 47,991	\$ (800,000)	\$ 17,085,417	\$ 820,000
Bond Premium	1,300,663	-	(111,660)	1,189,003	-
Capital Lease Payable	125,644	-	(62,362)	63,282	31,080
Accrued Interest	47,663	44,058	(47,663)	44,058	44,058
Accrued Compensated Absences	87,940	-	(15,522)	72,418	72,418
Net Pension Liability	2,231,949	37,189	(210,964)	2,058,174	-
Net OPEB Liability	7,256,998	(3,097,287)	(49,144)	4,110,567	-
Total governmental Activities					
Long-term Liabilities	<u>\$ 28,888,283</u>	<u>\$ (2,968,049)</u>	<u>\$ (1,297,315)</u>	<u>\$ 24,622,919</u>	<u>\$ 967,556</u>

\* See Section IV Footnote U for discussion on prior period adjustment for beginning Net OPEB Liability. There was an additional prior period adjustment for contributions made after the measurement period in the amount of \$49,144 related to this OPEB Liability.

**L. 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

**Pension Plan Fiduciary Net Position**

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description 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 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</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	\$	221,799
Current fiscal year member contributions	\$	635,849
2017 measurement year NECE on-behalf contributions	\$	436,687

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Contributions (continued)**

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Actuarial Assumptions**

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Amortization Method	Level Percentage of Payroll, open
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary Increases	3.50% to 9.50% including inflation
Benefit Changes during the year	None
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, 2014 and adopted in September 2015.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. This single discount rate was based on the expected rate of return on pension plan investments of 8.0 percent. 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 will be made at the rates set by the legislature during the 2013 legislative session. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability with no cross-over point to a municipal bond rate. The long-term expected rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized on the next page:

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Teacher Retirement System of Texas  
Asset Allocation and Long-Term Expected Rate of Return  
As of August 31, 2017**

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

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Discount Rate (continued)**

***Discount Rate Sensitivity***

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the net pension liability:	\$ 3,469,674	\$ 2,058,174	\$ 882,870

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2018, the District reported a liability of \$ 2,058,174 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 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	\$ 2,058,174
State's proportionate share that is associated with the District	4,269,296
Total	<u>\$ 6,327,470</u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0064368995% which was an increase of 0.0005304769% from its proportion measured as of August 31, 2016.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**L. DEFINED BENEFIT PENSION PLAN (continued)**

**Discount Rate (continued)**

For the year ended August 31, 2018, the District recognized pension expense of \$ 680,405  
and revenue of \$ 325,645 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 30,112	\$ 110,995
Changes in actuarial assumptions	93,753	53,671
Differences between projected and actual investment earnings	-	149,995
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	635,645	111
Total as of August 31, 2017 measurement date	759,510	314,772
Contributions paid to TRS subsequent to the measurement date	221,799	-
Total as of fiscal year-end	\$ 981,309	\$ 314,772

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

Fiscal year ended August 31,	Pension Expense Amount
2019	\$ 80,817
2020	\$ 212,196
2021	\$ 70,723
2022	\$ 28,583
2023	\$ 33,823
Thereafter	\$ 18,596



**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

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

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

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAS.

The Premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A & B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

<b>TRS-Care Plan Premium Rates</b>			
Effective Sept. 1, 2016 - Dec. 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

\*or surviving spouse

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)**

**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 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year employer contributions		\$ 63,746
Current fiscal year member contributions		\$ 53,676
2017 measurement year NECE on-behalf contributions		\$ 77,365

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)**

*Actuarial Assumptions.* The total OPEB liability in the August 31, 2017 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:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

*Additional Actuarial Methods and Assumptions:*

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	* 3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	** 3.50% to 9.50% **
Healthcare Trend Rates	*** 4.50% to 12.00%***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

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

\*\* Includes Inflation at 2.50%

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

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)**

**Other Information.** There was a significant change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 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 applied to all periods of projected benefit payments to determine the total OPEB liability.

<b>Discount Rate Sensitivity Analysis.</b> The following schedule shows the impact of the net OPEB liability if the discounted rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.			
	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
Proportionate share of the net OPEB liability	\$ 4,851,489	\$ 4,110,567	\$ 3,515,032
<b>Healthcare Cost Trend Rates Sensitivity Analysis.</b> The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.			
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 3,422,457	\$ 4,110,567	\$ 5,013,453

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* At August 31, 2018, the District reported a liability of

\$ 4,110,567

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 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

\$ 4,110,567

State's proportionate share that is associated with the District

6,471,081

Total

\$ 10,581,648

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was

0.0094525667%

Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and, therefore, disregarded this year.

For the year ended August 31, 2018 the District recognized OPEB expense of

\$ (3,543,870)

and revenue of \$ (2,165,396) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ -	\$ 85,811
Changes in actuarial assumptions	-	1,633,647
Differences between projected and actual investment earnings	624	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	21	-
Total as of August 31, 2017 measurement date	\$ 645	\$ 1,719,458
Contributions paid to TRS subsequent to the measurement date	63,746	-
Total as of fiscal year-end	\$ 64,391	\$ 1,719,458

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)**

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

Fiscal year ended August 31,	OPEB Expense Amount
2019	\$ (226,799)
2020	\$ (226,799)
2021	\$ (226,799)
2022	\$ (226,799)
2023	\$ (226,955)
Thereafter	\$ (584,662)

**N. HEALTH CARE COVERAGE**

During the year ended August 31, 2018, employees of the District were covered by a health insurance plan. The District contributed \$350 per month per employee to the plan and the state contributed \$75 per month per employee, and the employees authorized payroll deductions to cover the remaining premiums due on them and on dependents, if coverage is desired. All premiums were paid to the Teacher Retirement System Active Care. The District had 133 participating employees at August 31, 2018. There were 206 employees eligible for coverage at August 31, 2018.

**O. DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources at year end represent assets that are not available for use by the District to liquidate current year liabilities. A summary of deferred inflows of resources by fund follows:

	General Fund	Debt Service Fund	Total
Net Tax Revenue	<u>\$ 194,942</u>	<u>\$ 59,094</u>	<u>\$ 254,036</u>

Property tax revenues are earned but not available as of year-end; therefore they are recognized as revenues in the government-wide financials statements and as unavailable in the fund level financial statements.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**P. UNEARNED REVENUE**

Unearned revenues at year-end represent values 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 Fund
Federal Revenue	\$ 2,492
Total Unearned Revenue	\$ 2,492

**Q. DUE FROM OTHER GOVERNMENTS**

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

Fund	State Entitlements	Federal Grants	Total
General	\$ 465,922	\$ -	\$ 465,922
Non-Major Governmental	-	120,404	120,404
Total	\$ 465,922	\$ 120,404	\$ 586,326

**R. COMMITMENTS AND CONTINGENCIES**

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectivity of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**S. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Debt Service Fund	Special Revenue Funds	Total
Property Taxes	\$ 3,442,963	\$ 833,823	\$ -	\$ 4,276,786
Penalties, Interest, and Other Tax- related Income	34,030	9,468	-	43,498
Investment Income	92,265	29,236	4,660	126,161
Tuition and Fees	101,871	-	-	101,871
Food Sales	-	-	270,369	270,369
Co-curricular Student Activities	66,389	-	262,329	328,718
Gifts	27,609	-	1,519	29,128
Other	152	-	-	152
<b>Total</b>	<b>\$ 3,765,279</b>	<b>\$ 872,527</b>	<b>\$ 538,877</b>	<b>\$ 5,176,683</b>

**T. RISK MANAGEMENT**

***Auto, Liability, and Property Programs***

During the year ended August 31, 2018, Troy ISD participated in the TASB Risk Management Fund (the Fund) programs:

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

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability, and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018 the Fund anticipates Troy ISD has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial as of August 31, 2017, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.



**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**T. RISK MANAGEMENT (continued)**

***Unemployment Compensation Fund***

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

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**U. PRIOR PERIOD ADJUSTMENT**

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$ (7,207,854) which resulted in a restated beginning net position balance of \$ (242,551).

**V. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES**

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

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

See the next page the results of this activity.

**TROY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2018**

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (continued)**

**V. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES  
(continued)**

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

	Operating Grants & Contributions	Negative On- Behalf Accrual	Operating Grants & Contributions (excluding on- behalf accrual)
	<u>\$</u>	<u>\$</u>	<u>\$</u>
11 - Instruction	(692,004)	(1,434,769)	742,765
12 - Instructional Resources and Media Services	(53,967)	(64,075)	10,108
13 - Curriculum Development and Instructional Staff Development	(8,893)	(10,559)	1,666
21 - Instructional Leadership	(6,886)	(11,487)	4,601
23 - School Leadership	(138,423)	(164,351)	25,928
31 - Guidance, Counseling and Evaluation Services	(54,018)	(67,909)	13,891
33 - Health Services	(26,526)	(31,495)	4,969
34 - Student (Pupil) Transportation	(57,141)	(67,844)	10,703
35 - Food Services	477,079	(85,364)	562,443
36 - Extracurricular Activities	(54,842)	(77,838)	22,996
41 - General Administration	(29,682)	(35,242)	5,560
51 - Facilities Maintenance and Operat	(38,897)	(46,182)	7,285
53 - Data Processing Services	(57,511)	(68,281)	10,770
	<u>\$ (741,711)</u>	<u>\$ (2,165,396)</u>	<u>\$ 1,423,685</u>

**W. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 26, 2018, the date which the financial statements were available to be issued. No subsequent events require to the financial statements.

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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[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.]

**TROY INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$16,570,000**

**AS BOND COUNSEL FOR 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, until maturity or prior redemption, at the rate and payable on the dates as stated in the text of the Bonds, and maturing on August 1 in each of the years 2020 through 2044, inclusive, all in accordance with the terms and conditions stated in the text of the Bonds.

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

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

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the Issuer with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments



in the Permanent School Fund. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such representations and covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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

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



**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.

Respectfully,

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**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES