

**OFFICIAL STATEMENT**  
**Dated: December 16, 2019**

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

*In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.*

*The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.*

**\$2,695,000**

**GROESBECK INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Limestone, Falls and Robertson Counties, Texas)**  
**Unlimited Tax School Building Bonds, Series 2020**

**Interest Accrual Date: Initial Delivery (Defined Below)**

**Dated Date: December 15, 2019**

**Due: February 15, as shown on the inside cover page**

The Groesbeck Independent School District Unlimited Tax School Building Bonds, Series 2020 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 7, 2017 and the order (the "Order") adopted by the Board of Trustees (the "Board") on December 16, 2019. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the Groesbeck Independent School District (the "District"). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the date of initial delivery to the Purchaser (defined below), anticipated to occur on or about January 14, 2019 (the "Initial Deliver") and will be payable on February 15 and August 15 of each year, commencing February 15, 2020, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date").

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

Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation and equipment of school buildings in the District, the purchase of school buses, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2022 are subject to redemption at the option of the District in whole or in part on August 15, 2021 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS – Redemption").

**MATURITY SCHEDULE**  
(On Inside Cover)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser at a competitive sale (the "Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the services of DTC on or about January 14, 2020.*

**\$2,695,000**

**GROESBECK INDEPENDENT SCHOOL DISTRICT**

**(A POLITICAL SUBDIVISION OF THE STATE OF TEXAS LOCATED IN LIMESTONE, FALLS AND ROBERTSON COUNTIES, TEXAS)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

**MATURITY SCHEDULE**

Base CUSIP No.: 398748<sup>(1)</sup>

<b>Maturity Date <u>2/15</u></b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix<sup>(1)</sup></b>
2020	\$120,000	4.00%	1.03%	DM2
2021	1,160,000	4.00	1.05	DN0
2022	340,000	4.00	1.08 <sup>(2)</sup>	DP5
2023	345,000	3.25	1.10 <sup>(2)</sup>	DQ3
2024	360,000	2.00	1.15 <sup>(2)</sup>	DR1
2025	370,000	2.00	1.20 <sup>(2)</sup>	DS9

(Interest to accrue from the Delivery Date)

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2021, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**GROESBECK INDEPENDENT SCHOOL DISTRICT**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Tom Sutton, President	2005	2021	Real Estate Sales
Aslone Foy, Vice President	2017	2021	Agriculture Salesman
Jud Hughes, Secretary	2018	2021	ExxonMobil Technician
Tiffany Burlison, Member	2019	2022	Sales Manager
Angela Crane, Member	2019	2022	Registered Nurse / College Professor
Ronnie Ferguson, Member	2017	2020	Self Employed
Bridgett Jackson-Tatum, Secretary	2010	2022	Registered Nurse

**APPOINTED OFFICIALS**

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. James Cowley	Superintendent	31 Years	1 Year

**CONSULTANTS AND ADVISORS**

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Kirk & Richardson, P.C., Fort Worth, Texas	Certified Public Accountants

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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.

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District, the Financial Advisor or the Purchaser. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

IN CONNECTION WITH THIS OFFERING, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE 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.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION. THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING.

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## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The District</b>	The Groesbeck Independent School District (the "District") is a political subdivision of the State of Texas located in Limestone, Falls and Robertson Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
<b>The Bonds</b>	The Bonds are being issued in the principal amount of \$2,695,000 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, an election held in the District on November 7, 2017 (the "Election") and the order (the "Order") adopted by the Board of Trustees (the "Board") on December 16, 2019. Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation and equipment of school buildings in the District, the purchase of school buses, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of the Depository Trust Company ("DTC"). (See "BOOK-ENTRY-ONLY SYSTEM" herein).
<b>Security</b>	The Bonds will constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
<b>Redemption</b>	The Bonds maturing on or after February 15, 2022 are subject to redemption at the option of the District in whole or in part on August 15, 2021 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS – Redemption").
<b>Permanent School Fund Guarantee</b>	The District has received conditional approval from the Texas Education Agency ("TEA") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
<b>Rating</b>	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced underlying rating, including the Bonds, is "A" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel (identified below), 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 - Tax Exemption" herein, and is not includable in the federal alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.)
<b>Qualified Tax-Exempt Obligations</b>	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations").
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
<b>Delivery</b>	When issued, anticipated to be on or about January 14, 2020.

## INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Groesbeck Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Limestone, Falls and Robertson Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2020 (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds and the order (the "Order") adopted by the Board of Trustees of the District (the "Board") on December 16, 2019 authorizing the issuance of the Bonds, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Groesbeck Independent School District, 1202 N. Ellis, Groesbeck, Texas 76642 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the Purchaser of the Bonds to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

## THE BONDS

### Authorization and Purpose

The Bonds are being issued in the principal amount of \$2,695,000 pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 7, 2017 (the "Election") and the order (the "Order") adopted December 16, 2019. Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation and equipment of school buildings in the District, the purchase of school buses, and (ii) to pay the costs of issuing the Bonds.

### General Description

The Bonds are dated December 15, 2019 but interest will accrue from the Initial Delivery. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2020 and on each August 15 and February 15 until stated maturity or prior redemption.

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

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

### Redemption

The Bonds maturing on or after February 15, 2022 are subject to redemption at the option of the District in whole or in part on August 15, 2021 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption.

### Notice of Redemption and DTC Notices

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the 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.

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 DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the

Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

### **Security**

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency ("TEA") for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

### **Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education of the TEA for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, 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 a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

### **Legality**

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

### **Payment Record**

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

### **Amendments**

The District, may, without the consent of or notice to any holders of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of holders of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided, however, that, without the consent of all holders of outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

### **Defeasance**

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the

proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance of the Bonds cancels the Permanent School Fund guarantee with respect to such defeased Bonds.

**Sources and Uses of Funds**

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

<b>Sources</b>		
Par Amount of Bonds	\$	2,695,000.00
Net Reoffering Premium		73,762.10
<b>Total Sources of Funds</b>	\$	<u>2,768,762.10</u>
<b>Uses</b>		
Deposit to Construction Fund	\$	2,700,000.00
Costs of Issuance		62,168.83
Purchaser's Discount		6,593.27
<b>Total Uses of Funds</b>	\$	<u>2,768,762.10</u>

**REGISTERED OWNERS' REMEDIES**

If the District defaults in the payment, when due, of principal or interest, or redemption price of the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order any registered owner may seek a writ of mandamus from a court of proper jurisdiction to compel the District to make such payment or observe and perform such covenants, obligations, or conditions. 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 as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, 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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

**BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC 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 Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District and the Purchaser 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 United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC participants are on file with DTC.*

The DTC will act as securities depository for the 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100



countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](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 Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued.

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

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

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

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

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

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

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

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

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

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

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

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

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

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

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

the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed 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.

### **Initial Registration**

Definitive Bonds will be initially registered and delivered only to CEDE & CO., the nominee of DTC pursuant to the Book-Entry-Only System described herein.

### **Future Registration**

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

### **Record Date For Interest Payment**

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the next preceding month. 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 (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Limitation on Transfer of Bonds**

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

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

## **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

*The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Purchaser.*

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

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

### **History and Purpose**

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an

amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). (See "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

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

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

## **2019 Texas Legislative Session**

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis

that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

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

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

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

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

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

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

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

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

respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes

in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Proposed IRS Regulations will likely result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

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

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

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

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

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

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

### **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 December 4, 2019, there were 183 active open-enrollment charter schools in the State and there were 798 charter school campuses operating under such charters (though as of such date, 13 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

In accordance with the Act, the Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be

eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

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

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

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

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

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

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

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



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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2019, the Charter District Reserve Fund represented approximately 1.12% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

### **Charter District Risk Factors**

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

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

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

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

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

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

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

#### Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. 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 Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2015	\$29,081,052,900	\$36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 <sup>(2)</sup>	35,288,344,220	46,554,515,717

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

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

##### Permanent School Fund Guaranteed Bonds

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

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

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

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

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	\$63,197,514,047	28	\$757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 <sup>(2)</sup>	3,297	82,534,755,203	49	1,860,145,000	3,346	84,397,900,203

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

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

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

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

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

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

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

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

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

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

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

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

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

### **2011 and 2019 Constitutional Amendments**

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

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

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

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

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

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

### **Other Events and Disclosures**

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

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

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

As of August 31, 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 & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

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

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

### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

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

#### **Overview**

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

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

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

#### **Local Funding for School Districts**

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

### **State Compression Percentage**

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

### **Maximum Compressed Tax Rate**

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

### **Tier One Tax Rate**

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

### **Enrichment Tax Rate**

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

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

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

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

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

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

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

### **Tier One**

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district



characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

### **Tier Two**

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

### **Tax Rate and Funding Equity**

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

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

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

#### **Local Revenue Level in Excess of Entitlement**

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

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

#### **Options for Local Revenue Levels in Excess of Entitlement**

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

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

### **THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT**

For the 2019-2020 school year, the District was designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2019-20 school year, for the purpose of implementing permitted wealth equalization options.

A district's "excess local revenues" must be tested for each future school year and, if it exceeds the equalized wealth value, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more of the permitted wealth equalization 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 ration 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 an annexing district.

For a detailed discussion of State funding for school district see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts."

### **AD VALOREM TAX PROCEDURES**

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

## **Valuation of Taxable Property**

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

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

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

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

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

### **Local Option Homestead Exemptions**

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

### **State Mandated Freeze on School District Taxes**

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

### **Personal Property**

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

### **Freeport Exemptions**

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

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

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

## **Other Exempt Property**

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

## **Tax Increment Reinvestment Zones**

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

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

## **Tax Limitation Agreements**

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM TAX PROCEDURES – The Property Tax Code as Applied to the District" herein.

## **District and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

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

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

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

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

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

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

## **TAX RATE LIMITATIONS**

### **M&O Tax Rate Limitations**

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on November 10, 1970 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

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

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

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

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

### **I&S Tax Rate Limitations**

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

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

### **Public Hearing and Voter-Approval Tax Rate**

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

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

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

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

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

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

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

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

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

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

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

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Limestone, Falls, and Robertson Counties, Texas (the "County"). Each Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the County.

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

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

The District does not collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Limestone County Tax Assessor/Collector.

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

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

The District does not grant the additional local option exemption of up to 20% of the market value of residence homesteads.

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

See "Appendix A – Assessed Valuation" for the reduction in taxable valuation attributable in the foregoing exemptions.

## EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2019, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note R. Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

As a result of its participation in the Plan and the 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 ("GASB") Statement 45.

During the year ended August 31, 2019, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$250 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note U. Active Employee Health Care Coverage" of the Financial Statements.

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

## RATING

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's unenhanced, underlying rating, including the Bonds, is "A" by S&P.

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

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

## 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 limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. 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 that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except for the information included in the second paragraph under the subcaption "Notice of Redemption and DTC Notices" and under the subcaptions "Permanent School Fund Guarantee" and "Payment Record," as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings," as to which no opinion is expressed), 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 this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

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 the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## TAX MATTERS

### Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations,

published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's legal opinion appears in Appendix C hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. It is uncertain whether this legislation will be enacted and, if so, whether it will be enacted in its current form. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Bonds**

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the redemption, sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

### **Tax Accounting Treatment of Premium Bonds**

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the



amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

### **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exemption to this interest disallowance rule for financial institutions stating that such disallowance does not apply to interest expense allocable to certain tax-exempt obligations (other than private activity bonds that are not qualified 501 (c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of certain other tax-exempt obligations (other than private activity bonds that are not qualified 501 (c)(3) obligations other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer and certain related entities during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

## **INVESTMENT POLICIES**

### **Investments**

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

### **Legal Investments**

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

### **Investment Policies**

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

## **Current Investments**

As of August 31, 2019, the District had approximately \$14,044 (unaudited) invested in TexPool, \$448,491 (unaudited) invested in Texas Class (all of which are government investment pools that generally have the characteristics of a money-market mutual fund) and \$6,620,470 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the 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.

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

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

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

## **FINANCIAL ADVISOR**

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

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, 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.

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments 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 not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within six months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2019. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within six months after any such fiscal year end, then the District shall file unaudited Financial Statements within such six-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").

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

### **Notice of Certain Events**

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

For these purposes, (a) an event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

### **Availability of Information**

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of 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 has been 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. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified 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 provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

### **Compliance with Prior Undertakings**

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

## **LITIGATION**

In the opinion of District officials, except as may be described in this Official Statement, the District is not a party to any litigation or other proceeding pending or to their 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 of the District.

At the time of the initial delivery of the Bonds, the District will provide the Purchaser 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

## FORWARD-LOOKING STATEMENTS

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

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

## WINNING BIDDER

After requesting competitive bids for the Bonds, the District accepted the bid of Raymond James & Associates, Inc. (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page ii of this Official Statement at a price of par, plus a cash premium of \$73,762.10, less a Purchaser's discount of \$6,593.27 and no accrued interest. The District can give no assurance that any trading market will be developed for the Bonds after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

## CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Initial Bonds, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since August 31, 2019, the date of the last financial statements of the District appearing in the Official Statement.

## CONCLUDING STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumption, whether or not expressly identified as such, should not be considered statements of fact.

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

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 re-offering of the Bonds by the Purchaser.

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

*/s/ Tom Sutton*

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President, Board of Trustees

ATTEST:

*/s/ Aslone Foy*

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Vice President, Board of Trustees

**APPENDIX A**  
**FINANCIAL INFORMATION OF THE DISTRICT**

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**GROESBECK INDEPENDENT SCHOOL DISTRICT**

**Financial Information**

**ASSESSED VALUATION <sup>(1)</sup>**

2019/20 Total Valuation.....		\$ 2,014,676,406
Less Exemptions & Deductions <sup>(2)</sup> :		
State Homestead Exemption	\$ 56,537,378	
State/Local Over-65 Exemption	11,033,998	
100% Disabled Veteran Exemption Loss	2,556,526	
Veterans Exemption Loss	914,715	
Surviving Spouse	171,350	
Pollution Exemption Loss	31,822,710	
Productivity Loss	616,605,629	
Prorations & Other Partial Exemptions	49,996	
Homestead Cap Loss	560,048	
	<u>\$ 720,252,350</u>	
2019/20 Net Taxable Valuation .....		\$ 1,294,424,056

(1) Source: Certified Values from the Limestone, Robertson Central, and Falls County Appraisal Districts as of July 2019. The passage of a Texas constitutional amendment that was on the ballot in the November 3, 2015 election increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential Homestead Exemptions" in the Official Statement.

(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled \$47,925,636 in 2018/19.

**VOTED GENERAL OBLIGATION DEBT**

Unlimited Tax Bonds Outstanding		\$ 12,212,000
Plus: The Bonds		<u>2,695,000</u>
Total Unlimited Tax Bonds		14,907,000
Less: Interest & Sinking Fund Balance (As of August 31, 2019) <sup>(1)</sup>		<u>(505,767)</u>
Net General Obligation Debt		\$ 14,401,233
Ratio of Net G.O. Debt to Net Taxable Valuation <sup>(2)</sup>	1.11%	
2019 Population Estimate <sup>(3)</sup>	10,376	
Per Capita Net Taxable Valuation	\$124,752	
Per Capita Net G.O. Debt	\$1,388	

(1) Source: Groesbeck ISD Audited Financial Statement.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information relative to the District's outstanding obligations.

(3) Source: Municipal Advisory Council of Texas.

**PROPERTY TAX RATES AND COLLECTIONS**

Fiscal Year	Net		% Collections <sup>(4)</sup>	
	Taxable Valuation	Tax Rate	Current <sup>(5)</sup>	Total <sup>(5)</sup>
2006/07	\$ 1,642,033,697 <sup>(1)</sup>	\$ 1.2592	99.38%	99.95%
2007/08	1,974,327,814 <sup>(1)</sup>	0.9850 <sup>(6)</sup>	99.34%	99.94%
2008/09	2,257,065,718 <sup>(1)</sup>	1.0100	99.04%	99.67%
2009/10	2,341,592,940 <sup>(1)</sup>	1.0100	98.46%	99.13%
2010/11	2,205,890,404 <sup>(1)</sup>	1.0400	99.11%	100.09%
2011/12	2,024,924,515 <sup>(1)</sup>	1.0800	99.28%	100.65%
2012/13	1,929,151,524 <sup>(1)</sup>	1.0800	99.13%	99.72%
2013/14	1,816,379,408 <sup>(1)</sup>	1.0800	98.78%	99.75%
2014/15	1,773,456,406 <sup>(1)</sup>	1.1200	99.08%	100.05%
2015/16	1,690,864,277 <sup>(1)(2)</sup>	1.1200	98.86%	99.54%
2016/17	1,482,284,585 <sup>(1)</sup>	1.1647	98.75%	99.60%
2017/18	1,349,248,511 <sup>(1)</sup>	1.2375	98.65%	99.14%
2018/19	1,285,322,892 <sup>(1)</sup>	1.2775	98.00%	99.28%
2019/20	1,294,424,056 <sup>(3)</sup>	1.2075 <sup>(7)</sup>	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.

(2) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(3) Source: Certified Values from the Limestone, Robertson Central, and Falls County Appraisal Districts as of July 2019.

(4) Source: Groesbeck ISD Audited Financial Statements.

(5) Excludes penalties and interest.

(6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

(7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in Official Statement.

**TAX RATE DISTRIBUTION**

	2015/16	2016/17	2017/18	2018/19	2019/20 <sup>(1)</sup>
Maintenance & Operations	\$0.8167	\$0.9767	\$1.0400	\$1.0400	\$0.9700
Debt Service	\$0.3033	\$0.1880	\$0.1975	\$0.2375	\$0.2375
<b>Total Tax Rate</b>	<b>\$1.1200</b>	<b>\$1.1647</b>	<b>\$1.2375</b>	<b>\$1.2775</b>	<b>\$1.2075</b>

(1) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

**VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding <sup>(1)</sup>	Ratio Debt to A.V. <sup>(2)</sup>
2006/07	\$ 1,642,033,697	\$ -	0.00%
2007/08	1,974,327,814	-	0.00%
2008/09	2,257,065,718	10,000,000	0.44%
2009/10	2,341,592,940	19,570,000	0.84%
2010/11	2,205,890,404	25,253,035	1.14%
2011/12	2,024,924,515	21,931,807	1.08%
2012/13	1,929,151,524	21,742,000	1.13%
2013/14	1,816,379,408	25,813,000	1.42%
2014/15	1,773,456,406	21,144,000	1.19%
2015/16	1,690,864,277	16,661,000	0.99%
2016/17	1,482,284,585	14,466,000	0.98%
2017/18	1,349,248,511	14,795,000	1.10%
2018/19	1,285,322,892	12,512,000	0.97%
2019/20	1,294,424,056 <sup>(3)</sup>	12,709,000 <sup>(4)</sup>	0.98%

(1) Source: Groesbeck ISD Audited Financial Statements.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2019" in Appendix D for more information.

(3) Source: Certified Values from the Limestone, Robertson Central, and Falls County Appraisal Districts as of July 2019.

(4) Includes the Bonds.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Falls County	\$ 2,830,000	0.06%	\$ 1,698
Groesbeck, City of	378,554	100.00%	378,554
Kosse, City of	546,000	100.00%	546,000
Robertson County	14,810,000	0.76%	112,556
Limestone County	-	68.23%	-
<b>Total Overlapping Debt <sup>(1)</sup></b>			<b>\$ 1,038,808</b>
<b>Groesbeck Independent School District <sup>(2)</sup></b>			<b>14,401,233</b>
<b>Total Direct &amp; Overlapping Debt</b>			<b>\$ 15,440,041</b>
<b>Ratio of Net Direct &amp; Overlapping Debt to Net Taxable Valuation</b>		<b>1.19%</b>	
<b>Per Capita Direct &amp; Overlapping Debt</b>		<b>\$1,488</b>	

(1) Equals gross-debt less self-supporting debt.

(2) Includes the Bonds.

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.



**PRINCIPAL TAXPAYERS**

**2019/20 Top Ten Taxpayers <sup>(1)</sup>**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
NRG Texas Power LLC	Power Plant	\$ 353,348,290	27.30%
Oak Grove Management	Coal Field	101,512,260	7.84%
Trend Gathering & Treating LLC	Oil & Gas	66,472,310	5.14%
Atmos Energy/Mid-Tex Pipeline	Pipeline	62,059,960	4.79%
Riviera Operating LLC	Oil & Gas	30,886,810	2.39%
XTO Energy Inc.	Oil & Gas	22,034,732	1.70%
Oak Grove Mining Company	Mining	15,127,755	1.17%
Union Pacific RR Company	Railroad	14,975,240	1.16%
Oncor Electric Delivery	Electric	14,759,312	1.14%
Centerpoint Energy Houston Electric	Electric	11,435,680	0.88%
		<u>\$ 692,612,349</u>	<u>53.51%</u>

**2018/19 Top Ten Taxpayers <sup>(2)</sup>**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
NRG Texas Power LLC	Power Plant	\$ 378,574,720	29.45%
Oak Grove Management	Coal Field	100,111,700	7.79%
Trend Gathering & Treating LLC	Oil & Gas	73,373,160	5.71%
XTO Energy Inc.	Oil & Gas	25,274,360	1.97%
Atmos Energy/Mid-Tex Pipeline	Pipeline	23,354,850	1.82%
Linn Energy	Oil & Gas	15,302,180	1.19%
Union Pacific RR Company	Railroad	14,392,070	1.12%
Oak Grove Mining Company	Mining	13,794,917	1.07%
Linn Operating LLC	Oil & Gas	11,502,740	0.89%
Oncor Electric Delivery	Electric	10,778,240	0.84%
		<u>\$ 666,458,937</u>	<u>51.85%</u>

**2017/18 Top Ten Taxpayers <sup>(2)</sup>**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
NRG Texas Power LLC	Power Plant	\$ 463,240,250	34.33%
Oak Grove Management	Coal Field	109,488,397	8.11%
Trend Gathering & Treating LLC	Oil & Gas	71,990,590	5.34%
Atmos Energy/Mid-Tex Pipeline	Pipeline	25,587,200	1.90%
XTO Energy Inc.	Oil & Gas	20,776,966	1.54%
Linn Energy	Oil & Gas	15,809,290	1.17%
Oak Grove Mining Company	Mining	13,745,539	1.02%
Union Pacific RR Company	Railroad	13,548,700	1.00%
Superior Silica Sands LLC	Hydraulic Fracturing Sands	12,587,070	0.93%
ETC Katy Pipeline Ltd.	Pipeline	10,739,490	0.80%
		<u>\$ 757,513,492</u>	<u>56.14%</u>

(1) Source: Certified Values from the Limestone, Robertson Central, and Falls County Appraisal Districts as of July 2019.

(2) Source: Comptroller of Public Accounts - Property Tax Division and the Limestone Appraisal District.

Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 53.51% of the District's tax base. Adverse developments in economic conditions, especially in the natural gas refining industry, or to a large taxpayer (such as NRG Texas Power LLC, whose assets comprise 27.30% of the District's total assessed valuation), could adversely impact the businesses that own properties in the District or that store chemicals in the salt domes, and the tax values in the District, resulting in less local tax revenue. Additionally, fluctuations in inventory of individual taxpayers and prices in the general industry could significantly impact the taxable assessed value of the District if any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in the Official Statement.

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

<u>Category</u>	<u>2019/20</u> <sup>(1)</sup>	<u>% of Total</u>	<u>2018/19</u> <sup>(2)</sup>	<u>% of Total</u>	<u>2017/18</u> <sup>(2)</sup>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 318,018,705	15.79%	\$ 304,561,871	15.52%	\$ 303,354,506	15.12%
Real, Residential, Multi-Family	2,740,040	0.14%	2,673,661	0.14%	2,348,211	0.12%
Real, Vacant Lots/Tracts	17,110,183	0.85%	18,778,302	0.96%	19,513,023	0.97%
Real, Acreage	636,013,900	31.57%	593,607,927	30.24%	566,712,325	28.24%
Real, Farm & Ranch Improvements	172,876,364	8.58%	157,621,879	8.03%	148,175,613	7.38%
Real, Commercial & Industrial	470,527,955	23.36%	494,927,409	25.22%	567,591,526	28.28%
Oil & Gas	67,126,998	3.33%	70,261,954	3.58%	61,398,895	3.06%
Utilities	212,950,654	10.57%	176,521,138	8.99%	178,189,429	8.88%
Tangible Personal, Commercial & Industrial	105,329,062	5.23%	133,784,193	6.82%	149,169,703	7.43%
Tangible Personal, Mobile Homes & Other	9,670,895	0.48%	9,888,275	0.50%	10,168,315	0.51%
Tangible Personal, Residential Inventory	2,271,800	0.11%	105,100	0.01%	142,400	0.01%
Tangible Personal, Special Inventory	<u>39,850</u>	<u>0.00%</u>	<u>41,930</u>	<u>0.00%</u>	<u>50,060</u>	<u>0.00%</u>
<b>Total Appraised Value</b>	<b>\$ 2,014,676,406</b>	<b>100.00%</b>	<b>\$ 1,962,773,639</b>	<b>100.00%</b>	<b>\$ 2,006,814,006</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 560,048		\$ 716,844		\$ 1,781,154	
Productivity Loss	616,605,629		574,360,700		548,129,157	
Exemptions	<u>103,086,673</u>		<u>102,373,203</u>		<u>107,655,184</u>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 720,252,350</u>		<u>\$ 677,450,747</u>		<u>\$ 657,565,495</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 1,294,424,056</b>		<b>\$ 1,285,322,892</b>		<b>\$ 1,349,248,511</b>	

<u>Category</u>	<u>2016/17</u> <sup>(2)</sup>	<u>% of Total</u>	<u>2015/16</u> <sup>(2)</sup>	<u>% of Total</u>	<u>2014/15</u> <sup>(2)</sup>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 295,399,079	13.97%	\$ 288,527,541	12.36%	\$ 290,042,174	12.20%
Real, Residential, Multi-Family	2,261,041	0.11%	1,903,651	0.08%	2,212,791	0.09%
Real, Vacant Lots/Tracts	19,915,275	0.94%	20,228,336	0.87%	20,879,285	0.88%
Real, Acreage	537,753,048	25.43%	536,664,417	22.98%	468,609,233	19.72%
Real, Farm & Ranch Improvements	141,525,308	6.69%	141,175,597	6.05%	134,152,867	5.64%
Real, Commercial & Industrial	698,693,395	33.04%	838,605,639	35.91%	880,336,873	37.04%
Oil & Gas	76,940,043	3.64%	172,906,768	7.40%	210,217,640	8.84%
Utilities	189,129,491	8.94%	182,163,313	7.80%	195,366,946	8.22%
Tangible Personal, Commercial & Industrial	143,389,614	6.78%	143,097,706	6.13%	165,117,383	6.95%
Tangible Personal, Mobile Homes & Other	9,305,695	0.44%	9,354,105	0.40%	9,020,334	0.38%
Tangible Personal, Residential Inventory	273,040	0.01%	570,070	0.02%	763,220	0.03%
Tangible Personal, Special Inventory	<u>44,260</u>	<u>0.00%</u>	<u>46,420</u>	<u>0.00%</u>	<u>51,520</u>	<u>0.00%</u>
<b>Total Appraised Value</b>	<b>\$ 2,114,629,289</b>	<b>100.00%</b>	<b>\$ 2,335,243,563</b>	<b>100.00%</b>	<b>\$ 2,376,770,266</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 2,163,567		\$ 1,809,897		\$ 2,042,453	
Productivity Loss	518,348,257		519,342,543		451,802,656	
Exemptions	<u>111,832,880</u>		<u>123,226,846</u> <sup>(3)</sup>		<u>149,468,751</u>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 632,344,704</u>		<u>\$ 644,379,286</u>		<u>\$ 603,313,860</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 1,482,284,585</b>		<b>\$ 1,690,864,277</b>		<b>\$ 1,773,456,406</b>	

(1) Source: Certified Values from the Limestone, Robertson Central, and Falls County Appraisal Districts as of July 2019.

(2) Source: Comptroller of Public Accounts - Property Tax Division.

(3) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers

**PRINCIPAL REPAYMENT SCHEDULE**

Fiscal Year Ending 8/31	Outstanding Bonds	Plus: The Bonds	Total	Bonds Unpaid At Year End	Percent of Principal Retired
2020	\$ 2,078,000.00	\$ 120,000.00	\$ 2,198,000.00	\$ 12,709,000.00	14.74%
2021	1,277,000.00	1,160,000.00	2,437,000.00	10,272,000.00	31.09%
2022	1,095,000.00	340,000.00	1,435,000.00	8,837,000.00	40.72%
2023	1,139,000.00	345,000.00	1,484,000.00	7,353,000.00	50.67%
2024	1,178,000.00	360,000.00	1,538,000.00	5,815,000.00	60.99%
2025	1,215,000.00	370,000.00	1,585,000.00	4,230,000.00	71.62%
2026	1,005,000.00		1,005,000.00	3,225,000.00	78.37%
2027	1,045,000.00		1,045,000.00	2,180,000.00	85.38%
2028	1,075,000.00		1,075,000.00	1,105,000.00	92.59%
2029	1,105,000.00		1,105,000.00	-	100.00%
Total	<u>\$ 12,212,000.00</u>	<u>\$ 2,695,000.00</u>	<u>\$ 14,907,000.00</u>		

**DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds			Combined Total <sup>(1)</sup>
		Principal	Interest	Total	
2020	\$ 2,445,138.15	\$ 120,000.00	\$ 50,708.99	\$ 170,708.99	\$ 2,615,847.14
2021	1,597,637.90	1,160,000.00	62,612.50	1,222,612.50	2,820,250.40
2022	1,375,936.35	340,000.00	32,612.50	372,612.50	1,748,548.85
2023	1,379,837.25	345,000.00	20,206.25	365,206.25	1,745,043.50
2024	1,378,675.95	360,000.00	11,000.00	371,000.00	1,749,675.95
2025	1,375,636.75	370,000.00	3,700.00	373,700.00	1,749,336.75
2026	1,123,475.00				1,123,475.00
2027	1,126,075.00				1,126,075.00
2028	1,124,275.00				1,124,275.00
2029	1,121,575.00				1,121,575.00
	<u>\$ 14,048,262.35</u>	<u>\$ 2,695,000.00</u>	<u>\$ 180,840.24</u>	<u>\$ 2,875,840.24</u>	<u>\$ 16,924,102.59</u>

(1) Based on its wealth per student, the District does not expect to receive financial assistance for the payment of debt service for the fiscal year 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS**

Projected Maximum Debt Service Requirement <sup>(1)</sup>	\$ 2,820,250.40
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption <sup>(2)</sup>	35,000.00
Projected Net Debt Service Requirement	<u>\$ 2,785,250.40</u>
 \$0.21956 Tax Rate @ 98% Collections Produces	 \$ 2,785,250.41
 2019/20 Certified Net Taxable Assessed Valuation	 \$ 1,294,424,056

(1) Includes the Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2019/20, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.

**AUTHORIZED BUT UNISSUED BONDS**

Following the Issuance of the Bonds, the District does not have any authorized but unissued unlimited ad valorem tax bond authorization from the November 7, 2017 election or any other election. 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.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES <sup>(1)</sup>

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
<b>Beginning Fund Balance</b>	\$ 9,482,303	\$ 7,640,488	\$ 5,878,635	\$ 6,220,971	\$ 6,036,022
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 14,578,565	\$ 13,739,634	\$ 14,296,057	\$ 13,820,091	\$ 13,515,550
State Program Revenues	5,439,707	5,678,023	6,237,032	4,070,030	2,410,420
Federal Sources & Other	48,121	21,947	94,606	513,931	348,459
<b>Total Revenues</b>	<b>\$ 20,066,393</b>	<b>\$ 19,439,604</b>	<b>\$ 20,627,695</b>	<b>\$ 18,404,052</b>	<b>\$ 16,274,429</b>
<b>Expenditures:</b>					
Instruction	\$ 9,268,042	\$ 9,515,250	\$ 9,172,475	\$ 9,228,249	\$ 8,323,159
Instructional Resources & Media Services	501,919	449,690	465,756	183,082	99,484
Curriculum & Instructional Staff Development	109,201	116,084	108,301	76,567	110,669
Instructional Leadership	164,704	167,396	153,953	157,914	174,511
School Leadership	901,303	850,223	811,439	791,942	867,740
Guidance, Counseling & Evaluation Services	582,475	604,687	583,426	586,774	673,474
Social Work Services	39,351	39,878	38,424	36,852	43,296
Health Services	126,587	165,056	171,235	182,045	195,353
Student (Pupil) Transportation	702,812	785,755	756,797	776,633	898,846
Cocurricular/Extracurricular Activities	990,500	1,028,043	1,004,437	925,415	864,065
General Administration	1,081,399	1,062,293	980,194	702,120	616,600
Plant Maintenance and Operations	2,169,282	2,357,611	2,181,862	2,740,128	2,111,589
Security and Monitoring Services	37,094	36,647	33,610	32,226	35,443
Data Processing Services	211,769	214,363	157,685	204,258	103,848
Community Services	78,900	48,857	81,134	85,099	262,575
Contracted Instructional Services Between Schools	4,838,360	3,988,286	3,284,548	1,518,462	1,247,663
Capital Outlay	-	-	244,102	361,635	-
Other Intergovernmental Charges	-	-	-	-	391,858
<b>Total Expenditures</b>	<b>\$ 21,803,698</b>	<b>\$ 21,430,119</b>	<b>\$ 20,229,378</b>	<b>\$ 18,589,401</b>	<b>\$ 17,020,173</b>
Excess (Deficiency) of Revenues over Expenditures	\$ (1,737,305)	\$ (1,990,515)	\$ 398,317	\$ (185,349)	\$ (745,744)
<b>Other Resources and (Uses):</b>					
Sale of Real and Personal Property	\$ 95,490	\$ 228,662	\$ 8,415	\$ 400	\$ 14,615
Transfers In	-	-	-	-	142,894
Transfers Out	(200,000)	-	(64,396)	-	-
<b>Total Other Resources (Uses)</b>	<b>\$ (104,510)</b>	<b>\$ 228,662</b>	<b>\$ (55,981)</b>	<b>\$ 400</b>	<b>\$ 157,509</b>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (1,841,815)	\$ (1,761,853)	\$ 342,336	\$ (184,949)	\$ (588,235)
<b>Ending Fund Balance</b>	<b>\$ 7,640,488</b>	<b>\$ 5,878,635</b>	<b>\$ 6,220,971</b>	<b>\$ 6,036,022</b>	<b>\$ 5,447,787</b>

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2019/20 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.

**CHANGE IN NET ASSETS <sup>(1)</sup>**

	Fiscal Year Ended August 31				
	2015	2016	2017	2018	2019
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 518,172	\$ 648,558	\$ 425,488	\$ 379,573	\$ 537,021
Operating Grants and Contributions	2,176,449	2,549,865	2,515,976	(262,552)	3,537,437
<b>General Revenues:</b>					
Property Taxes Levied for General Purposes	14,351,904	13,475,352	14,012,240	13,522,115	12,806,983
Property Taxes Levied for Debt Service	5,318,643	5,000,346	2,708,506	2,567,955	2,925,077
State Aid - Formula Grants	-	-	-	3,394,721	1,666,391
Grants and Contributions Not Restricted	4,845,347	5,550,935	5,751,806	445,476	344,396
Investment Earnings	10,496	36,824	69,944	140,761	233,139
Miscellaneous	(83,601)	208,050	143,421	117,400	164,488
<b>Total Revenue</b>	<b>\$ 27,137,410</b>	<b>\$ 27,469,930</b>	<b>\$ 25,627,381</b>	<b>\$ 20,305,449</b>	<b>\$ 22,214,932</b>
<b>Expenses:</b>					
Instruction	\$ 11,534,608	\$ 11,963,659	\$ 11,430,986	\$ 7,416,867	\$ 11,083,192
Instruction Resources & Media Services	557,522	523,308	533,089	85,468	117,882
Curriculum & Staff Development	181,908	211,539	216,616	179,925	188,976
Instructional Leadership	200,362	194,322	175,656	125,194	210,845
School Leadership	1,003,201	991,605	937,291	573,902	1,047,266
Guidance, Counseling & Evaluation Services	784,836	870,997	779,302	672,898	932,267
Social Work Services	43,707	46,230	43,711	30,373	52,254
Health Services	140,602	190,085	195,512	156,333	235,615
Student Transportation	849,531	958,228	897,488	700,134	1,068,876
Food Service	937,619	1,134,115	1,128,154	780,346	1,065,080
Cocurricular/Extracurricular Activities	1,100,225	1,182,900	1,153,715	766,233	1,029,674
General Administration	1,201,220	1,212,133	1,109,735	604,851	729,815
Plant Maintenance & Operations	2,408,542	2,679,551	2,461,776	2,839,095	2,319,166
Security and Monitoring Services	40,924	41,163	37,684	35,880	40,071
Data Processing Services	232,898	234,451	177,191	355,328	204,013
Community Services	90,242	57,989	93,609	68,226	307,980
Debt Service - Interest on Long-term Debt	643,035	542,242	478,968	440,504	352,411
Debt Service - Bond Issuance Cost and Fees	1,000	1,000	1,000	1,000	91,644
Contracted Instructional Services Between Schools	4,838,360	3,988,286	3,284,548	1,518,462	1,247,663
Capital Outlay	1,111	-	-	361,635	-
Other Intergovernmental Charges	-	-	-	-	391,858
<b>Total Expenditures</b>	<b>\$ 26,791,453</b>	<b>\$ 27,023,803</b>	<b>\$ 25,136,031</b>	<b>\$ 17,712,654</b>	<b>\$ 22,716,548</b>
Business-type Activities - Child Care Center	\$ 144,597	\$ 207,393	\$ 155,927	\$ 145,317	\$ -
<b>Change in Net Assets</b>	<b>\$ 201,360</b>	<b>\$ 238,734</b>	<b>\$ 335,423</b>	<b>\$ 2,447,478</b>	<b>\$ (501,616)</b>
<b>Beginning Net Assets</b>	<b>\$ 26,665,095</b>	<b>\$ 24,852,650</b>	<b>\$ 25,091,384</b>	<b>\$ 25,426,807</b>	<b>\$ 10,166,162</b>
<b>Prior Period Adjustment</b>	<b>\$ (2,013,805) <sup>(2)</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (17,708,123) <sup>(3)</sup></b>	<b>\$ -</b>
<b>Ending Net Assets</b>	<b>\$ 24,852,650</b>	<b>\$ 25,091,384</b>	<b>\$ 25,426,807</b>	<b>\$ 10,166,162</b>	<b>\$ 9,664,546</b>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.

(2) In 2015, the prior period adjustment is the result of recording net pension liability in accordance with GASB Statement 68 and 71.

(3) In 2018, the District adopted GASB Statement No. 75 which required the District to assume their proportionate share of the net OPEB liability of the Texas Public School Retired Employees Group Insurance Program administered by the Teacher Retirement System of Texas.

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**APPENDIX B**

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

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**GROESBECK INDEPENDENT SCHOOL DISTRICT**

**General and Economic Information**

The Groesbeck Independent School District is located in Limestone County with portions extending into Falls and Robertson Counties. The City of Groesbeck is the county seat of Limestone County and is located at the intersection of State Highways 14 and 164 and FM 937. The current estimated population of the District is approximately 10,376.

Source: Texas Municipal Report for Groesbeck ISD.

**Enrollment Statistics**

<u>As of August</u>	<u>Enrollment</u>
2007	1,588
2008	1,497
2009	1,564
2010	1,583
2011	1,589
2012	1,649
2013	1,717
2014	1,875
2015	1,829
2016	1,829
2017	1,889
2018	1,882
2019	1,636
Current	1,623

**District Staff**

Teachers	124
Teachers' Aides & Secretaries	39
Auxiliary Personnel	77
Administrators	9
Other	18
Total	<u>267</u>

**Facilities**

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
H.O. Whitehurst Elementary	PK-3	523	900	1985	Wing Addition 1999
Enge-Washington Intermediate	4-6	413	1,196	2009	NA
Groesbeck Middle School	7-8	246	600	1973	NA
Groesbeck High School	9-12	441	4,332	1989	Weight Room 2008 Field House 2014

**Principal Employers within the District**

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Groesbeck ISD	Public Education	267
Limestone County	County	232
Limestone Medical Center	Hospital	208
ILSA	Insurance Licensing Agency	53
Limestone County Detention Center	Prison	47

**Unemployment Rates**

	<u>September 2017</u>	<u>September 2018</u>	<u>September 2019</u>
Limestone County	5.4%	4.5%	3.8%
State of Texas	4.1%	3.7%	3.3%

Source: Texas Workforce Commission.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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## FINAL

IN REGARD to the authorization and issuance of the “Groesbeck Independent School District Unlimited Tax School Building Bonds, Series 2020” (the *Bonds*), dated December 15, 2019, in the aggregate original principal amount of \$2,695,000 we have reviewed the legality and validity of the issuance thereof by the Groesbeck Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 2020 through 2025, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other 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. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. 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.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at [nortonrosefulbright.com](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “GROESBECK INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020”**

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX D**

**AUDITED FINANCIAL REPORT  
FISCAL YEAR ENDED AUGUST 31, 2019**

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**GROESBECK INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED**

**AUGUST 31, 2019**

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# GROESBECK INDEPENDENT SCHOOL DISTRICT

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**CERTIFICATE OF THE BOARD**

Groesbeck Independent School District  
Name of School District

Limestone  
County

147-902  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  X  approved \_\_\_\_\_ disapproved for the year ended August 31, 2019, at a meeting of the board of trustees of such school district on the  18th  day of  November , 2019.

*Jud Hughes*

\_\_\_\_\_  
Signature of Board Secretary

*Tom Sutton*

\_\_\_\_\_  
Signature of Board President

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

# Kirk & Richardson, P.C.

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

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Groesbeck Independent School District  
1202 N. Ellis  
Groesbeck, Texas 76642

### **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 Groesbeck Independent School District (the "District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-15 and 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Also included as required supplementary information are the following the following schedules related to the Teacher Retirement System (TRS) of Texas: Schedule of the District's Proportionate Share of the Net Pension Liability – TRS of Texas, Schedule of District Contributions – TRS of Texas, Schedule of the District's Proportionate Share of the Net OPEB Liability – TRS of Texas, Schedule of District Contributions for Other Post-Employment Benefits – TRS of Texas, and the Notes to Required Supplementary Information as reported on pages 66 through 73 respectively. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reports and compliance with the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

*Kirk & Richardson, P.C.*

Kirk & Richardson, P.C.  
Fort Worth, Texas  
November 15, 2019



# GROESBECK INDEPENDENT SCHOOL DISTRICT

1202 N. Ellis ■ P.O. Box 559 ■ 254-729-4100 ■ Fax 254-729-2391

James Cowley, Ed. D.  
Superintendent of Schools

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

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

### FINANCIAL HIGHLIGHTS

- The District issued Unlimited Tax Refunding Bonds, Series 2018, in the amount of \$6,260,000 to a portion of the Unlimited Tax School Building Bonds, Series 2008. Estimated cash flow savings are \$710,412 and present value savings are \$610,566 from this refunding.
- The net position of the District at the close of its fiscal year was \$9,664,546, a decrease of \$(501,616) from last year. The change in net position from current year operations decreased by \$(358,722) and by \$(142,894) as a result of the childcare activities, previously reported in a Proprietary Fund, being transferred to the General Fund. Unrestricted net position is \$(7,535,360). Net Investment in Capital Assets is \$16,641,034. The remaining \$558,872 is restricted for Federal and State Programs, Debt Service, and Campus Activities.
- As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$6,024,054 a decrease of \$(1,325,330) from the prior year. The General Fund had a net decrease of \$(588,235). This resulted from current year operations of \$(745,744), offset by \$14,615 from the sale of real and personal property and \$142,894 transfer in from the Proprietary Fund. The Debt Service Fund had a net increase of \$229,854 resulting from an increase of \$97,076 from current year operations, a refunding bonds issued in the amount \$6,260,000 plus \$442,387 from premium on issuance of bonds less \$(6,569,609) as payment to bond refunding escrow agent. Other Funds decreased by \$(966,949) primarily from the Capital Projects Fund decreasing by \$951,611 from current year operations.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,416,890 or 31.8% of total General Fund current year expenditures. Prior year unassigned fund balance for the General Fund was \$5,996,431, or 32.3% of total General Fund expenditures.



- No new programs were added during the year

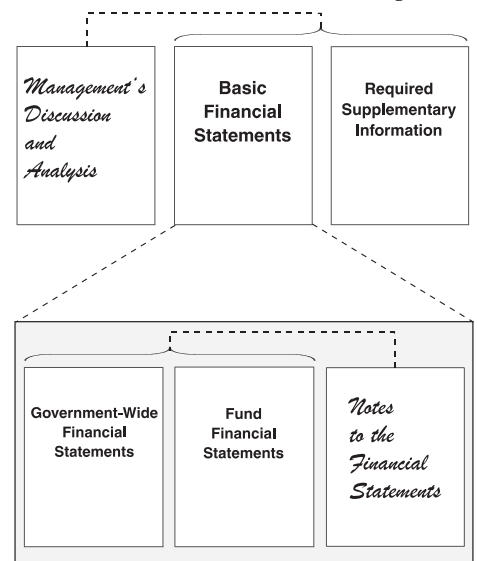
## OVERVIEW OF THE FINANCIAL STATEMENTS

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

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.
- *Business activities and internal service funds* – The District no longer has business activities as the childcare activity was transferred to the General Fund.

**Figure A-1. Required Components of the District’s Annual Financial Report**



Summary  Detail

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

### Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s *net position* and how they have changed. Net position—the difference between the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources — is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District’s tax base.

The government-wide financial statements of the District include governmental activities and business-type activities. Most of the District’s basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District’s most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- Governmental funds—Most of the District’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- Fiduciary funds—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.
- Business-type activities – The District no longer has business-type activities.

## **Notes to the Financial Statements**

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

### **Other Information**

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

**Table A-1  
Net Position**

	Governmental & Business-type Activities	
	2019	2018
Current assets:		
Cash & cash equivalents	\$6,854,128	\$7,401,122
Net property taxes – delinquent	524,287	459,661
Due from other governments	486,991	1,113,420
Miscellaneous receivables	6,775	10,955
Inventories – supplies & materials	40,591	47,501
Total current assets	7,912,772	9,032,659
Noncurrent assets:		
Land, building, furniture & equipment	59,330,978	58,238,382
Less accumulated depreciation	(30,172,957)	(28,062,287)
Total noncurrent assets	29,158,021	30,176,095
Total Assets	37,070,793	39,208,754
Deferred outflows of resources:		
Deferred charge for refunding	145,099	0
TRS – Pension	2,850,838	1,257,670
TRS – Other Post Employee Benefits	655,599	93,472
Total deferred outflow of resources	3,651,536	1,351,142
Current liabilities:		
Accounts payable & accrued liabilities	1,209,161	907,913
Due to other governments, student groups, & unearned revenues	172,665	196,331
Total current liabilities	1,381,826	1,104,244
Long-term liabilities:		
General obligation bonds	12,662,086	14,847,708
TRS – Pension (District’s Share)	5,386,475	3,243,562
TRS – Other Post Employee Benefits (District’s Share)	7,881,600	7,441,996
Total long-term liabilities	25,930,161	25,533,266
Total liabilities	27,311,987	26,637,510
Deferred inflow of resources:		
TRS – Pension	524,577	643,223
TRS – Other Post Employee Benefits	3,221,219	3,113,001
Total deferred inflow of resources	3,745,796	3,756,224
Net position:		
Net investment in capital assets	16,641,034	15,328,387
Restricted	558,872	1,260,749
Unrestricted	(7,535,360)	(6,422,974)
Total net position	<u>\$ 9,664,546</u>	<u>\$10,166,162</u>

The District has the following restricted net position: \$52,356 for state and federal programs, \$488,372 for debt service, and \$18,144 for campus activities.

**Table A-2**  
**Statement of Activities**

	Governmental & Business-type Activities	
	2019	2018
<b>REVENUES:</b>		
Program revenues:		
Charges for services (including business-type activities)	\$ 537,021	\$ 379,573
Operating grants and contributions (including business-type activities)	3,537,437	(262,552)
General revenues:		
Maintenance and operations taxes	12,806,983	13,522,115
Debt service taxes	2,925,077	2,567,955
State aid – formula grants	1,666,391	3,394,721
Grants & contributions not restricted	344,396	445,476
Investment earnings (including business-type activities)	233,139	140,761
Miscellaneous local & intermediate revenue	164,488	117,400
Total revenues	<u>22,214,932</u>	<u>20,305,449</u>
<b>EXPENSES:</b>		
Instruction	11,083,192	7,416,867
Instructional resources & media services	117,882	85,468
Curriculum & staff development	188,976	179,925
Instructional leadership	210,845	125,194
School leadership	1,047,266	573,902
Guidance, counseling, & evaluation services	932,267	672,898
Social work services	52,254	30,373
Health services	235,615	156,333
Student transportation	1,068,876	700,134
Food service	1,065,080	780,346
Cocurricular/extracurricular activities	1,029,674	766,233
General administration	729,815	604,851
Facilities maintenance & operations	2,319,166	2,839,095
Security & monitoring services	40,071	35,880
Data processing services	204,013	355,328
Community services	307,980	68,226
Interest on long-term debt	352,411	440,504
Bond issuance costs & fees	91,644	1,000
Other intergovernmental charges	1,639,521	1,880,097
Payments from enterprise fund	0	145,317
Total expenses	<u>22,716,548</u>	<u>17,857,971</u>
Increase/(Decrease) in net position before inflows/ outflows and special items	(501,616)	2,447,478
Net position beginning of year	10,166,162	25,426,807
Prior period adjustments	0	(17,708,123)
Net position end of year	<u>\$ 9,664,546</u>	<u>\$10,166,162</u>

**Total Revenue by Source**

	Total Activities	
	2019	2018
Program Revenues:		
Charges for services	2.4%	1.9%
Operating grants and contributions	15.9%	(1.3%)
General Revenues:		
Maintenance & operating taxes	57.7%	66.6%
Debt service taxes	13.2%	12.6%
State aid – formula grants	7.5%	16.7%
Grants and contributions not restricted	1.6%	2.1%
All others	1.7%	1.4%
Total Revenues	<u>100.0%</u>	<u>100.0%</u>

## Total Expenses by Function

	Total Activities	
	2019	2018
Instruction	48.8%	41.5%
Instructional resources & media services	0.5%	0.5%
Curriculum & staff development	0.8%	1.0%
Instructional leadership	0.9%	0.7%
School leadership	4.6%	3.2%
Guidance, counseling, & evaluation services	4.1%	3.8%
Social work services	0.2%	0.2%
Health services	1.0%	0.9%
Student transportation	4.7%	3.9%
Food service	4.6%	4.4%
Cocurricular/extracurricular activities	4.5%	4.3%
General administration	3.2%	3.4%
Facilities maintenance & operations	10.2%	15.9%
Security & monitoring services	0.2%	0.2%
Data processing services	0.9%	2.0%
Community services	1.4%	0.4%
Interest on long-term debt	1.6%	2.5%
Bond issuance costs & fees	0.4%	0.0%
Other intergovernmental charges	7.4%	10.5%
Payments to enterprise fund	0.0%	0.7%
Total Expenses	100.0%	100.0%

The District's governmental activities net position decreased by \$(358,722) from the current fiscal year operation over last year as shown below.

1) Total net change in Fund Balances – Governmental Funds	\$(1,325,330)
2) Capital outlays and long-term debt principal	3,732,970
3) Depreciation	(2,266,801)
4) GASB 68 adjustments	(431,099)
5) GASB 75 adjustments	14,305
6) Other miscellaneous adjustments	(82,767)
Total	<u><u>\$(358,722)</u></u>

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

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all governmental activities this year was \$22,716,548.
- However, the amount that our taxpayers paid for these activities through property taxes was \$15,732,060.
- Some of the cost was paid by those who directly benefited from the programs \$537,021 or by grants and contributions \$3,547,437.

**Table A-3  
Net Cost of Selected District Functions**

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2019	2018		2019	2018	
Instruction	\$11,083,192	\$7,416,867	49.4	\$8,984,504	\$8,123,106	10.6
Plant Maint. & Opers.	2,319,166	2,839,095	(18.3)	2,218,020	2,991,454	(26.0)
Other Govern. Chgs	1,639,521	1,880,097	(12.8)	1,639,521	1,880,097	(12.8)
Student Transportation	1,068,876	700,134	52.7	998,662	(791,279)	-

## GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

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

The District’s governmental funds reported a combined ending fund balance of \$6,024,054, a net decrease of \$(1,325,330) from last year’s combined fund balance. Unassigned fund balance is \$5,416,890, or 89.9%, and was available for spending at the District’s discretion. The remainder of fund balance is not available for discretionary spending because it is classified as nonspendable, restricted, or assigned for the following items:

Nonspendable fund balance:	
Inventories – General Fund	\$ 20,298
Inventories – National Breakfast & Lunch Program	20,293
Restricted fund balance:	
Federal or state funds grant restrictions	32,063
Retirement of long-term debt	505,767
Campus activity funds	18,144
Assigned fund balance:	
General Fund	10,599

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the General Fund’s unassigned fund balance was \$5,416,890 or 99.4% while the total fund balance was \$5,447,787.

The Debt Service Fund ending fund balance was \$505,767 all of which is reserved for the payment of future debt service.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

1. Amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we originally estimated).

2. Major amendments were to increase Function 99 – Other Intergovernmental Charges by \$402,132 for unanticipated operating costs.
3. Amendments to move funds from programs that did not need all the resources originally appropriated to programs with resource needs.

The District’s actual General Fund balance of \$5,447,787 differs from the General Fund’s budgetary fund balance of \$5,185,543. The difference of \$262,244 is primarily due to actual local and intermediate sources exceeding the final budget by \$560,627 and state program revenues being \$746,554 less than anticipated. Actual expenditures were \$179,703 less than the final budget of \$17,199,876. Other Financing Resources, that were not included in the final budget, added another \$157,509 to the General Fund balance.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District’s investments in capital assets for its governmental activities at the end of this fiscal year amounts to \$29,158,021 (net of accumulated depreciation) for a net decrease of \$1,018,074 or 3.4% from last year. Major additions were \$1,037,556 in improvements to existing facilities and \$208,984 for vehicles with an offset of current year depreciation. The investment in capital assets includes land, buildings and improvements, and furniture and equipment.

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

**Table A-4  
District’s Capital Assets**

	2019	2018
Land	\$ 298,049	\$ 298,049
Buildings & improvements	54,787,466	53,850,443
Furniture & equipment	4,245,463	4,089,890
Less depreciation	(30,172,957)	(28,062,287)
Totals	\$29,158,021	\$30,176,095

### Long-term Debt

At year-end, the District had \$25,903,161 in outstanding debt as shown in Table A-5. More detailed information about the District’s debt is presented in the notes to the financial statements.



**Table A-5  
District's Long-Term Debt**

	Governmental Activities	
	2019	2018
Bonds payable	\$12,212,000	\$14,795,000
Unamortized premium/(discount)	450,086	52,708
Net pension liability (District share – TRS)	5,386,475	3,243,562
Net OPEB liability (District share – TRS)	7,881,600	7,441,996
Totals	\$25,930,161	\$25,533,266

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

- Appraised value used for the 2020 budget preparation increased by approximately \$3,420,921 from the year 2019.
- The district's 2020 refined average daily attendance is expected to be 1,554 which is down from approximately 1,671 in 2019.

These indicators were taken into account when adopting the general fund budget for 2020. The amount available for appropriation in the general fund balance is \$16,958,825 an increase of 3.9% from the amount available in 2019.

The District passed a Budget in August 2019, reflecting a potential \$406,793 increase in fund balance.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Groesbeck Independent School District's Business Services Department at P. O. Box 559, Groesbeck, Texas 76642 or phone number 254-729-4106.

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## **BASIC FINANCIAL STATEMENTS**

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

EXHIBIT A-1

Data Control Codes	1	2 Primary Government		3
	Governmental Activities	Business Type Activities	Total	
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 6,854,128	\$ -	\$ 6,854,128	
1220 Property Taxes - Delinquent	919,802	-	919,802	
1230 Allowance for Uncollectible Taxes	(395,515)	-	(395,515)	
1240 Due from Other Governments	486,991	-	486,991	
1267 Due from Fiduciary Funds	1,244	-	1,244	
1290 Other Receivables, Net	5,531	-	5,531	
1300 Inventories	40,591	-	40,591	
Capital Assets:				
1510 Land	298,049	-	298,049	
1520 Buildings, Net	27,684,122	-	27,684,122	
1530 Furniture and Equipment, Net	1,175,850	-	1,175,850	
1000 Total Assets	<u>37,070,793</u>	<u>-</u>	<u>37,070,793</u>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
1701 Deferred Charge for Refunding	145,099	-	145,099	
1705 Deferred Outflow Related to TRS Pension	2,850,838	-	2,850,838	
1706 Deferred Outflow Related to TRS OPEB	655,599	-	655,599	
1700 Total Deferred Outflows of Resources	<u>3,651,536</u>	<u>-</u>	<u>3,651,536</u>	
<b>LIABILITIES</b>				
2110 Accounts Payable	278,106	-	278,106	
2140 Interest Payable	17,395	-	17,395	
2150 Payroll Deductions and Withholdings	18,095	-	18,095	
2160 Accrued Wages Payable	895,565	-	895,565	
2180 Due to Other Governments	108,506	-	108,506	
2190 Due to Student Groups	99	-	99	
2200 Accrued Expenses	21,129	-	21,129	
2300 Unearned Revenue	42,931	-	42,931	
Noncurrent Liabilities:				
2501 Due Within One Year	1,778,000	-	1,778,000	
2502 Due in More Than One Year	10,884,086	-	10,884,086	
2540 Net Pension Liability (District's Share)	5,386,475	-	5,386,475	
2545 Net OPEB Liability (District's Share)	7,881,600	-	7,881,600	
2000 Total Liabilities	<u>27,311,987</u>	<u>-</u>	<u>27,311,987</u>	
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2605 Deferred Inflow Related to TRS Pension	524,577	-	524,577	
2606 Deferred Inflow Related to TRS OPEB	3,221,219	-	3,221,219	
2600 Total Deferred Inflows of Resources	<u>3,745,796</u>	<u>-</u>	<u>3,745,796</u>	
<b>NET POSITION</b>				
3200 Net Investment in Capital Assets	16,641,034	-	16,641,034	
Restricted:				
3820 Restricted for Federal and State Programs	52,356	-	52,356	
3850 Restricted for Debt Service	488,372	-	488,372	
3870 Restricted for Campus Activities	18,144	-	18,144	
3900 Unrestricted	<u>(7,535,360)</u>	<u>-</u>	<u>(7,535,360)</u>	
3000 Total Net Position	<u>\$ 9,664,546</u>	<u>\$ -</u>	<u>\$ 9,664,546</u>	

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

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

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 11,083,192	\$ 171,075	\$ 1,927,613
12 Instructional Resources and Media Services	117,882	-	8,676
13 Curriculum and Instructional Staff Development	188,976	-	58,144
21 Instructional Leadership	210,845	-	18,070
23 School Leadership	1,047,266	-	89,133
31 Guidance, Counseling and Evaluation Services	932,267	-	167,661
32 Social Work Services	52,254	-	5,300
33 Health Services	235,615	-	20,331
34 Student (Pupil) Transportation	1,068,876	-	70,214
35 Food Services	1,065,080	110,437	881,091
36 Extracurricular Activities	1,029,674	252,229	54,050
41 General Administration	729,815	-	42,425
51 Facilities Maintenance and Operations	2,319,166	3,280	97,866
52 Security and Monitoring Services	40,071	-	-
53 Data Processing Services	204,013	-	80,857
61 Community Services	307,980	-	16,006
72 Debt Service - Interest on Long-Term Debt	352,411	-	-
73 Debt Service - Bond Issuance Cost and Fees	91,644	-	-
91 Contracted Instructional Services Between Schools	1,247,663	-	-
99 Other Intergovernmental Charges	391,858	-	-
[TG] Total Governmental Activities:	<u>22,716,548</u>	<u>537,021</u>	<u>3,537,437</u>
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 22,716,548</u>	<u>\$ 537,021</u>	<u>\$ 3,537,437</u>

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants and Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
FR	Transfers In (Out)
TR	Total General Revenues & Transfers
CN	Change in Net Position
NB	Net Position - Beginning
NE	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (8,984,504)	\$ -	\$ (8,984,504)
(109,206)	-	(109,206)
(130,832)	-	(130,832)
(192,775)	-	(192,775)
(958,133)	-	(958,133)
(764,606)	-	(764,606)
(46,954)	-	(46,954)
(215,284)	-	(215,284)
(998,662)	-	(998,662)
(73,552)	-	(73,552)
(723,395)	-	(723,395)
(687,390)	-	(687,390)
(2,218,020)	-	(2,218,020)
(40,071)	-	(40,071)
(123,156)	-	(123,156)
(291,974)	-	(291,974)
(352,411)	-	(352,411)
(91,644)	-	(91,644)
(1,247,663)	-	(1,247,663)
(391,858)	-	(391,858)
<u>(18,642,090)</u>	<u>-</u>	<u>(18,642,090)</u>
<u>(18,642,090)</u>	<u>-</u>	<u>(18,642,090)</u>
12,806,983	-	12,806,983
2,925,077	-	2,925,077
1,666,391	-	1,666,391
344,396	-	344,396
233,139	-	233,139
164,488	-	164,488
142,894	(142,894)	-
<u>18,283,368</u>	<u>(142,894)</u>	<u>18,140,474</u>
(358,722)	(142,894)	(501,616)
<u>10,023,268</u>	<u>142,894</u>	<u>10,166,162</u>
<u>\$ 9,664,546</u>	<u>\$ -</u>	<u>\$ 9,664,546</u>

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 6,329,872	\$ 468,793	\$ 55,463	\$ 6,854,128
1220 Property Taxes - Delinquent	753,151	166,651	-	919,802
1230 Allowance for Uncollectible Taxes	(323,855)	(71,660)	-	(395,515)
1240 Due from Other Governments	204,631	36,974	245,386	486,991
1260 Due from Other Funds	100,439	-	-	100,439
1290 Other Receivables	5,531	-	-	5,531
1300 Inventories	20,298	-	20,293	40,591
1000 Total Assets	<u>\$ 7,090,067</u>	<u>\$ 600,758</u>	<u>\$ 321,142</u>	<u>\$ 8,011,967</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 212,917	\$ -	\$ 65,189	\$ 278,106
2150 Payroll Deductions and Withholdings Payable	18,095	-	-	18,095
2160 Accrued Wages Payable	832,949	-	62,616	895,565
2170 Due to Other Funds	-	-	99,195	99,195
2180 Due to Other Governments	108,506	-	-	108,506
2190 Due to Student Groups	99	-	-	99
2200 Accrued Expenditures	17,208	-	3,921	21,129
2300 Unearned Revenue	23,210	-	19,721	42,931
2000 Total Liabilities	<u>1,212,984</u>	<u>-</u>	<u>250,642</u>	<u>1,463,626</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	429,296	94,991	-	524,287
2600 Total Deferred Inflows of Resources	<u>429,296</u>	<u>94,991</u>	<u>-</u>	<u>524,287</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	20,298	-	20,293	40,591
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	32,063	32,063
3480 Retirement of Long-Term Debt	-	505,767	-	505,767
3490 Other Restricted Fund Balance	-	-	18,144	18,144
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	10,599	-	-	10,599
3600 Unassigned Fund Balance	5,416,890	-	-	5,416,890
3000 Total Fund Balances	<u>5,447,787</u>	<u>505,767</u>	<u>70,500</u>	<u>6,024,054</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,090,067</u>	<u>\$ 600,758</u>	<u>\$ 321,142</u>	<u>\$ 8,011,967</u>

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



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

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	6,024,054
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 \$58,238,382 and the accumulated depreciation was \$(28,062,287). 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.		15,304,863
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 2019 capital outlays and debt principal payments is to increase net position.		3,732,970
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 \$2,850,838, a deferred resource inflow in the amount of \$524,577, and a net pension liability in the amount of \$5,386,475. This resulted in a decrease in net position.		(3,060,214)
4 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 \$655,599, a deferred resource inflow in the amount of \$3,221,219, and a net OPEB liability in the amount of \$7,881,600. This resulted in a decrease in net position.		(10,447,220)
5 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,266,801)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		376,894
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>9,664,546</b>

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

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

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 13,515,550	\$ 2,973,864	\$ 124,259	\$ 16,613,673
5800 State Program Revenues	2,410,420	36,895	300,532	2,747,847
5900 Federal Program Revenues	348,459	-	1,833,096	2,181,555
5020 Total Revenues	<u>16,274,429</u>	<u>3,010,759</u>	<u>2,257,887</u>	<u>21,543,075</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	8,323,159	-	1,072,689	9,395,848
0012 Instructional Resources and Media Services	99,484	-	-	99,484
0013 Curriculum and Instructional Staff Development	110,669	-	49,483	160,152
0021 Instructional Leadership	174,511	-	-	174,511
0023 School Leadership	867,740	-	-	867,740
0031 Guidance, Counseling and Evaluation Services	673,474	-	106,486	779,960
0032 Social Work Services	43,296	-	-	43,296
0033 Health Services	195,353	-	-	195,353
0034 Student (Pupil) Transportation	898,846	-	66,989	965,835
0035 Food Services	-	-	948,340	948,340
0036 Extracurricular Activities	864,065	-	7,991	872,056
0041 General Administration	616,600	-	-	616,600
0051 Facilities Maintenance and Operations	2,111,589	-	-	2,111,589
0052 Security and Monitoring Services	35,443	-	-	35,443
0053 Data Processing Services	103,848	-	70,484	174,332
0061 Community Services	262,575	-	-	262,575
<b>Debt Service:</b>				
0071 Principal on Long-Term Debt	-	2,433,000	-	2,433,000
0072 Interest on Long-Term Debt	-	389,039	-	389,039
0073 Bond Issuance Cost and Fees	-	91,644	-	91,644
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	902,374	902,374
<b>Intergovernmental:</b>				
0091 Contracted Instructional Services Between Schools	1,247,663	-	-	1,247,663
0099 Other Intergovernmental Charges	391,858	-	-	391,858
6030 Total Expenditures	<u>17,020,173</u>	<u>2,913,683</u>	<u>3,224,836</u>	<u>23,158,692</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(745,744)</u>	<u>97,076</u>	<u>(966,949)</u>	<u>(1,615,617)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7901 Refunding Bonds Issued	-	6,260,000	-	6,260,000
7912 Sale of Real and Personal Property	14,615	-	-	14,615
7915 Transfers In	142,894	-	-	142,894
7916 Premium or Discount on Issuance of Bonds	-	442,387	-	442,387
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(6,569,609)	-	(6,569,609)
7080 Total Other Financing Sources (Uses)	<u>157,509</u>	<u>132,778</u>	<u>-</u>	<u>290,287</u>
1200 Net Change in Fund Balances	(588,235)	229,854	(966,949)	(1,325,330)
0100 Fund Balance - September 1 (Beginning)	<u>6,036,022</u>	<u>275,913</u>	<u>1,037,449</u>	<u>7,349,384</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,447,787</u>	<u>\$ 505,767</u>	<u>\$ 70,500</u>	<u>\$ 6,024,054</u>

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

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

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (1,325,330)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase net position.	3,732,970
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.	(2,266,801)
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 decrease net position.	(82,767)
GASB 68 required that certain 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 \$324,724. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction to net pension liability. This caused a decrease in net position totaling \$331,691. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$424,132. The net result is a decrease in the change in net position.	(431,099)
GASB 75 required that certain 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 \$104,423. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction to net OPEB liability. This caused a decrease in net position totaling \$92,309. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$2,191. The net result is an increase in the change in net position.	14,305
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (358,722)</b>

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

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

	Business-Type Activities
	Total Enterprise Funds
Transfers Out	\$ (142,894)
Change in Net Position	(142,894)
Total Net Position - September 1 (Beginning)	142,894
 Total Net Position - August 31 (Ending)	 \$ -

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

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

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Payments to Employees for Services	\$ (520)
Cash Payments for Suppliers	(260)
Cash Payments for Other Operating Expenses	(25,301)
Net Cash Used for Operating Activities	<u>(26,081)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(142,895)
Net Decrease in Cash and Cash Equivalents	(168,976)
Cash and Cash Equivalents at Beginning of Year	<u>168,976</u>
Cash and Cash Equivalents at End of Year	<u>\$ -</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Prepaid Expenses	375
Increase (decrease) in Accounts Payable	(635)
Increase (decrease) in Accrued Wages Payable	(520)
Increase (decrease) in Due to Other Funds	(25,301)
Net Cash Used for Operating Activities	<u>\$ (26,081)</u>

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

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

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,145	\$ 131,100
Total Assets	3,145	\$ 131,100
<b>LIABILITIES</b>		
Accounts Payable	-	\$ 93
Due to Other Funds	-	1,244
Due to Student Groups	-	129,763
Total Liabilities	-	\$ 131,100
<b>NET POSITION</b>		
Restricted for Scholarships	3,145	
Total Net Position	\$ 3,145	

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

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

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 28,801
Total Additions	<u>28,801</u>
DEDUCTIONS:	
Other Operating Costs	<u>37,910</u>
Total Deductions	<u>37,910</u>
Change in Net Position	(9,109)
Total Net Position - September 1 (Beginning)	<u>12,254</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 3,145</u></u>

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

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

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

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

### **A. Reporting Entity**

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

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

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District previously operated a Child Care Center as a business-type activity that is currently accounted for within the General Fund.

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

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



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

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

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

The District reports the following major government funds:

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

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

In addition, the District maintains the following funds:

#### **Governmental Funds:**

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

The District's Food Service Fund (National Breakfast and Lunch Program) is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Breakfast and Lunch Program, (2) the General Fund subsidizes the Food Service Program for all expenditures in excess of the National Breakfast and Lunch Program, and (3) the

District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes. This is a budgeted fund.

**The Capital Projects Fund** – This fund, which is an unbudgeted fund, is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction, renovations, and technology projects/enhancements.

**Proprietary Funds:**

**Enterprise Funds** – These funds are conceived to be self-supporting. Revenues are earned mainly from sales of services to the schools and operating departments of the District. The District uses this fund type to report its childcare activities. This fund was discontinued during the current year and all balances transferred to the General Fund that now accounts for this activity.

**Fiduciary Funds:**

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

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

The District does not have any permanent funds.

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and recognizes expenditures in the accounting period

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

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

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

#### **Management’s Use of Estimates**

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

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

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

1. Cash and Cash Equivalents - The District’s cash and cash equivalents are considered as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments considered as cash equivalent are reported at fair value.
2. Investments - Investments are recorded at fair value. Investments are considered and classified as cash equivalents. Investments are primarily in FDIC insured investments, savings accounts, and public funds money markets and are not significantly affected by the impairment of the credit standing of the issues or other factors.
3. Inventories and Prepaid Items - The District uses the consumption method to account for inventories of food products, school supplies, and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when

consumed. In the General Fund, reported inventories are offset by a fund balance reserve. Inventories of food commodities used in the food service program are recorded at fair market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount.

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

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

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

6. Encumbrances - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve a portion of the applicable appropriation, is employed in the governmental fund types on the governmental fund financial statements. Encumbrances are liquidated at year-end.
7. Capital Assets - Capital assets, which include land, buildings and improvements, furniture and equipment and construction in progress, are reported in the applicable governmental column in the government-wide financial statements. The cost of the infrastructure (e.g., roads, bridges, sidewalks, and similar items) was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at an estimated fair value at the date of donation.

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

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

Asset Classification	Useful Life
Buildings and improvements	50
Portable buildings	15
Vehicles	5-8
Office equipment	5-10

Land and construction in progress are not depreciable.

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

General Fund	\$23,210
Other Funds – State Instructional Materials	19,721
Total	<u>\$42,931</u>

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

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

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

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. During the current year, the District had \$145,099 in deferred charges for refunding.

- Deferred outflows of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actuarial experience. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. During the current year, the District had \$2,850,838 deferred outflow related to TRS from implementing GASB 68. This amount consisted of \$2,526,114 for total net amounts per TRS August 31, 2018 measurement date and \$324,724 for contributions paid to TRS subsequent to the measurement date.
- Deferred outflow of resources related to TRS OPEB – Reported in the government-wide financial statement of net position, this deferred outflow results related to TRS OPEB contributions made after the measurement date of the net pension liability and the results of differences between expected and actuarial experience. The deferred outflows of resources related to TRS OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net TRS OPEB liability in the next fiscal year. During the current year, the District had \$655,599 deferred outflow related to TRS OPEB as a result of GASB 75. This amount consisted of \$551,176 for total net amounts per TRS OPEB August 31, 2018 measurement date and \$104,423 for contributions paid to TRS OPEB subsequent to the measurement date.

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

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, for unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of revenues in the period that the amounts become available. During the current year, the District recorded deferred inflow of resources \$429,296 and \$94,991 as unavailable revenues – property taxes with the General Fund and Debt Service Fund respectively.
- Deferred inflow of resources for pensions – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. During the current year, the District recorded \$524,577 for total net amounts per TRS August 31, 2018 measurement date as a result of implementing GASB 68.
- Deferred inflow of resources related to TRS OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on TRS OPEB investments. During

the current year, the District recorded \$3,221,219 for total net amounts per TRS OPEB August 31, 2018 measurement date in accordance with GASB 75.

11. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
12. Net Position Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. When both restricted and unrestricted resources are available for use in a specific program or a specific purpose, the District's normal policy is to use the restricted resource to finance its activities.

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

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

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

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

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

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

Restricted for other purposes – funds that have been designated by the District to classify locally funded grants. The District does not have any restricted for other purposes.

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

13. Fund Balance Flow Assumptions – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are

considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by the assigned fund balance. The unassigned fund balance is applied last.

14. Fund Balance Policies - In the fund financial statements, government funds report fund balances as either a non-spendable fund balance or a spendable fund balance.

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

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

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

Committed fund balance – the component of spendable fund balance constrained to a specific purpose by the Board. A Board resolution is required to establish, modify, or rescind a fund balance commitment. Only the action that constitutes the most binding constraint of the Board can be considered a commitment for fund balance classification purposes. The District does not have any committed fund balances.

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

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



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

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Nonspendable Fund Balance:				
Inventories	\$ 20,298	\$ 0	\$20,293	\$ 40,591
Restricted Fund Balance:				
Nat'l School Breakfast & Lunch Program	0	0	32,063	32,063
Retirement of long- term debt	0	505,767	0	505,767
Campus activity funds	0	0	18,144	18,144
Assigned Fund Balance	10,599	0	0	10,599
Unassigned	5,416,890	0	0	5,416,890
Total Fund Balance	<u>\$5,447,787</u>	<u>\$505,767</u>	<u>\$70,500</u>	<u>\$6,024,054</u>

The District does not have a minimum fund balance policy.

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

**F. Implementation of New Standards**

No new standards were implemented during the year.

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

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

Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities” provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the

change in net position. The debt payments on the retirement of debt are recorded as expenditures for fund-basis financial statements but are a reduction of debt in the government-wide financial statements. The capital asset additions are expenditures in the fund-basis financial statements but capitalized in the government-wide financial statements. The fund-basis financial statements do not include depreciation expense. The depreciation expense is a deduction to reconcile to the government-wide statement of activities. New debt issues are treated as sources of revenue for fund-basis financial statements, but for the government-wide statements, those amounts are recorded as a liability. Property taxes are adjusted for the accrual basis and the unavailable revenues are adjusted based on prior-year levies and current year uncollectable amounts. Also included are all of the adjustments required by GASB 68 and GASB 75.

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

**A. Budgets and Budgetary Accounting**

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

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

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

	Original Budget Appropriations	Increase (Decrease)	Amended Budget Appropriations
General Fund – Exhibit G-1	\$16,321,397	\$878,479	\$17,199,876
Child Nutrition Program – Exhibit J-4	841,335	108,500	949,835
Debt Service Fund – Exhibit J-5	2,843,145	96,155	2,939,300

General Fund – Major amendments were to add \$273,368 to Function 98 – Contracted Instructional Services Between Schools and \$402,132 to Function 99 – Other Intergovernmental Charges for tax appraisals and collections.

4. Each budget is controlled at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2019 Fund Balance	
Appropriated Budgeted Funds – National Breakfast & Lunch Program	\$52,356
Non-appropriated Budgeted Funds	18,144
All Special Revenue Funds	\$70,500

**B. Excess of Expenditures over Appropriations**

Function 52 – Security & Monitoring Services was over budget by \$(3,743) or 11.5%. This amount is considered immaterial to the General Fund as a whole.

**C. Deficit Fund Equity**

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

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Cash Equivalents**

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

Depository information is as follows:

- Depository bank: Citizen’s State Bank
- Highest combined balance: \$3,545,833
- Date of highest combined balance: May 13, 2019
- Amount of FDIC insurance: \$250,000
- Amount of pledged securities: \$4,483,641

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

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

At August 31, 2019, the carrying value of the District's deposits was \$620,519, excluding petty cash of \$2,875 and \$6,230,734 of investments considered as cash equivalents, and the bank balance was \$744,450. The District's cash deposits at August 31, 2019, and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Governmental Funds:	
Petty cash	\$ 2,875
Cash-in-bank	620,519
Investments considered as cash equivalents	6,230,734
Total cash and cash equivalents	<u>6,854,128</u>
Proprietary Funds:	
Cash-in-bank	0
Total Governmental Activities	<u><u>\$6,854,128</u></u>

The following investments are considered as cash equivalents:

Investments	Carrying Amount	Fair Value	Percentage of Investments	Weighted Average Maturity (Days)
Certificate of deposits	\$5,350,159	\$5,350,159	85.9	On demand
FDIC insured investments	382,313	382,313	6.1	On demand
Texas Class - AAAM	448,490	448,490	7.2	On demand
Texpool - AAAM	49,772	49,772	0.8	On demand
Totals	<u>\$6,230,734</u>	<u>\$6,230,734</u>	<u>100.0</u>	

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

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

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

**Custodial Credit Risk – Investments** - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investment is not exposed to custodial risk. External investment pools are not subject custodial risk because investments are not evidenced by securities that exist in physical or book entry

form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service. District investments are not exposed to custodial credit risk.

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

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

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

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

## **B. Property Taxes**

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

The Board establishes the District’s property tax rates annually. The authorized tax rates for property taxes assessed on January 1, 2018, were \$1.0400 and \$0.2375 per \$100 for the General Fund and Debt Service Fund, respectively, based on a net assessed valuation of \$1,238,461,996.

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

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

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

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	Property Taxes - Delinquent	Allowance for Uncollectible Taxes	Unavailable Revenue – Property Taxes
General Fund	\$753,151	\$(323,855)	\$429,296
Debt Service Fund	166,651	(71,660)	94,991
Totals	<u>\$919,802</u>	<u>\$(395,515)</u>	<u>\$524,287</u>

Current tax collections for the levy year ended August 31, 2019, were 98.0% of the year-end adjusted tax levy.

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

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

**C. Disaggregation of Receivables and Payables**

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

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

**D. Receivables from Other Governments**

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

	Due from State	Due from Other Governments	Total
General Fund	<u>\$167,432</u>	<u>\$37,199</u>	<u>\$204,631</u>
Special Revenue Funds:			
ESEA I, A – Improving Basic Programs	96,265	0	96,265
IDEA – Part B Formula	61,120	0	61,120
National Breakfast & Lunch Program	46,153	0	46,153
Career & Technical – Basic Grant	1,455	0	1,455
ESEA II, A – Training & Recruiting	14,399	0	14,399
Title IV, B – Community Learning	23,193	0	23,193
ESEA VI, Pt. B – Rural & Low Income	201	0	201
Other Federal Special Revenue Funds	<u>2,600</u>	<u>0</u>	<u>2,600</u>
Total Special Revenue Funds	<u>245,386</u>	<u>0</u>	<u>245,386</u>
Debt Service Fund	<u>36,974</u>	<u>0</u>	<u>36,974</u>
Totals	<u>\$449,792</u>	<u>\$37,199</u>	<u>\$486,991</u>

**E. Interfund Receivables and Payables**

Interfund receivables and payables at August 31, 2019, consisted of the following:

General Fund – Due from Other Funds:	
Special Revenue Funds:	
ESEA I, A – Improving Basic Programs	\$ 6,516
IDEA – Part B Formula	7,723
National Breakfast & Lunch Program	43,500
Career & Technical – Basic Grant	7,353
ESEA II, A – Training & Recruiting	20,087
ESEA VI, Pt. B – Rural & Low Income	531
Other Federal Special Revenue Funds	8,479
Other State Special Revenue Funds	4,565
Campus Activity Funds	441
Total Special Revenue Funds Due to General Fund	<u>99,195</u>
Fiduciary Funds – Agency Fund Due to General Fund	1,244
Total due to General Fund from Other Funds	<u>\$100,439</u>

**F. Interfund Transfers**

The Proprietary Funds – Enterprise Funds transferred \$142,894 ending net position to the General Fund as a result of the childcare activities currently being accounted for within the General Fund.

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

The District’s General Fund had the following financing sources and (uses) during the year:

Sale of Real and Personal Property	<u>\$14,615</u>
------------------------------------	-----------------

The District’s Debt Service Fund had the following financing sources and (uses) during the year:

Refunding Bonds Issued	\$6,260,000
Premium or Discount on Issuance of Bonds	442,387
Payment to Bond Refunding Escrow Agent (Use)	<u>(6,569,609)</u>
Total Other Financing Sources (Uses)	<u>\$ 132,778</u>

**H. Special Items/Extraordinary Items**

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

**I. Operating Leases**

The District leases office equipment under noncancelable operating leases. Total costs for such leases were \$37,918 for the year. The future minimum lease payments for active operating leases are summarized below:

Year Ending August 31	Amount
2020	\$38,532
2021	38,532
2022	21,217
Thereafter	0

**J. Capital Asset Activity**

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

	Beginning Balance	Increases/ Adjustments	Decreases/ Adjustments	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 298,049	\$ 0	\$ 0	\$ 298,049
Construction in Progress	0	0	0	0
Total Capital Assets, not being depreciated	298,049	0	0	298,049
Capital assets, being depreciated:				
Buildings and improvements	53,850,443	1,037,556	100,533	54,787,466
Furniture and equipment	4,089,890	237,198	81,625	4,245,463
Total capital assets, being depreciated	57,940,333	1,274,754	182,158	59,032,929
Less accumulated depreciation for:				
Buildings and improvements	25,343,673	1,838,850	79,179	27,103,344
Furniture and equipment	2,718,614	427,951	76,952	3,069,613
Total accumulated depreciation	28,062,287	2,266,801	156,131	30,172,957
Governmental activities capital assets, net	\$30,176,095	\$(992,047)	\$ 26,027	\$29,158,021

Major additions to buildings were for upgrades to HVAC systems and facility lighting systems within the District. Furniture and equipment were primarily for new vehicles. Various types of equipment, that was no longer in service, was disposed of during the year.

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

<b>Governmental activities:</b>	
11 – Instruction	\$1,209,721
12 – Instruction Resources & Media Services	12,991
13 – Curriculum & Instructional Staff Development	20,913
21 – Instructional Leadership	22,788
23 – School Leadership	113,313
31 – Guidance, Counseling & Evaluation Services	101,850
32 – Social Work Services	5,654
33 – Health Services	25,510
34 – Student (Pupil) Transportation	118,755
35 – Food Services	118,556
36 – Extracurricular Activities	113,877
41 – General Administration	80,518
51 – Plant Maintenance & Operations	260,674
52 – Security & Monitoring Services	4,628
53 – Data Processing Services	22,765
61 – Community Services	34,288
Total Depreciation Expense	\$2,266,801

**K. Long-Term Debt**

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



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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$14,795,000	\$6,260,000	\$8,843,000	\$12,212,000	\$1,778,000
Premium on bonds	52,708	442,387	45,009	450,086	0
Sub-total	14,847,708	6,702,387	8,888,009	12,662,086	1,778,000
Net pension liability	3,243,562	2,472,580	329,667	5,386,475	0
Net OPEB liability	7,441,996	548,498	108,894	7,881,600	0
Total	<u>\$25,533,266</u>	<u>\$9,723,465</u>	<u>\$9,326,570</u>	<u>\$25,930,161</u>	<u>\$1,778,000</u>

#### L. Bonds Payable

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

During the current year the District issued \$6,260,000 in Series 2018 Unlimited Tax Refunding Bonds, with an average interest rate of 4.3%, to advance refund a portion of the District's Series 2008 Unlimited Tax Bonds, with an average interest rate of 4.98%, and to pay the costs associated with sale of the Bonds. The net proceeds of \$6,569,609, after paying underwriter's discount and cost of issuance of \$132,623 and depositing \$17,421 to the Debt Service Fund, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the previously identified refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The District in effect reduced its aggregate debt service payments by \$710,412 over 11 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$607,411.

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

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
Series 2008 UT Bonds/ 2029	4.98%	\$10,000,000	\$ 6,892,000	\$ 0	\$6,892,000	\$ 0	\$ 0
Series 2009 UTSB Bonds/ 2025	0.93%	5,574,000	2,698,000	0	376,000	2,322,000	378,000
Series 2013 UT Bonds/ 2021	0.55%/2.2%	8,000,000	2,910,000	0	1,450,000	1,460,000	875,000
Series 2018 UTSB Bonds/2029	3.0%/5.0%	2,295,000	2,295,000	0	20,000	2,275,000	35,000
Series 2018 UTR Bonds/2029	3.0%/5.0%	6,260,000	0	6,260,000	105,000	6,155,000	490,000
Totals			<u>\$14,466,000</u>	<u>\$6,260,000</u>	<u>\$8,843,000</u>	<u>\$12,212,000</u>	<u>\$1,778,000</u>

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

Year Ended August 31	Principal	Interest	Total Requirements
2020	\$ 1,778,000	\$ 373,738	\$ 2,151,738
2021	1,577,000	323,938	1,900,938
2022	1,095,000	280,936	1,375,936
2023	1,139,000	240,837	1,379,837
2024	1,178,000	200,676	1,378,676
2025-2029	5,445,000	426,037	5,871,037
Totals	<u>\$12,212,000</u>	<u>\$1,846,162</u>	<u>\$14,058,162</u>

Interest and fees paid on general obligation bonds during the year were \$480,683.

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

**M. Defeasance of Debt**

During the current year, the District issued refunding bonds for the purpose of restructuring debt cash flow requirements. Proceeds from the refunding bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. The old bonds are considered defeased, and accordingly, the trust account assets and liabilities are not included in the District's financial statements. On August 31, 2019, \$6,410,000 of bonds considered defeased are still outstanding.

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

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

	General Fund	Debt Service Fund	Other Funds	Fund Totals
Property taxes	\$12,758,638	\$2,912,480	\$ 0	\$15,671,118
Food sales	0	0	110,437	110,437
Penalties, interest & other tax related income	133,607	30,713	0	164,320
Earnings – temporary deposits & investments	196,631	30,671	6,016	233,318
Rent	3,280	0	0	3,280
Insurance recovery	7,896	0	0	7,896
Other revenues from local sources	171,075	0	0	171,075
Athletics	66,456	0	0	66,456
Co-curricular/Enterprising activities	177,967	0	7,806	185,773
Total	<u>\$13,515,550</u>	<u>\$2,973,864</u>	<u>\$124,259</u>	<u>\$16,613,673</u>

**O. State Aid Revenue**

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

	General Fund	Debt Service Fund	Other Funds	Totals
Per Capita Apportionment	\$ 812,264	\$ 0	\$ 0	\$ 812,264
Foundation School Prg. Act Entitlements	854,127	0	0	854,127
Other Foundation School Program Act.	27,093	0	0	27,093
State Program Revenues	442	36,895	300,532	337,869
TRS On-behalf Payments	672,951	0	0	672,951
TRS Medicare Part-D	43,543	0	0	43,543
Totals	<u>\$2,410,420</u>	<u>\$36,895</u>	<u>\$300,532</u>	<u>\$2,747,847</u>

**P. Federal Program Revenues**

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

Revenues	General Fund	Other Funds
School Health & Related Services (SHARS)	\$267,313	\$ 0
U. S. Department of Education – Passed Through	81,146	1,072,425
U. S. Department of Agriculture – Passed Through	0	760,671
Totals	<u>\$348,459</u>	<u>\$1,833,096</u>

**Q. Employee Benefits**

**Compensated Absences**

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying government-wide financial statements or the governmental fund financial statements. Employees of the District

are entitled to sick leave based on category/class of employment. Sick leave is allowed to accumulate but does not vest. Therefore, liability for unused sick leave has not been recorded in either the government-wide financial statements or the governmental fund financial statements.

#### **R. Defined Benefit Pension Plan**

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

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

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

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

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

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

	<u>Contribution Rates</u>		
		<u>2018</u>	<u>2019</u>
Member		7.7%	7.7%
Non-Employer Contributing Entity (State)		6.8%	6.8%
Employers		6.8%	6.8%
Current fiscal year Employer Contributions		\$324,724	
Current fiscal year Member Contributions		\$822,953	
2018 measurement date NECE On-behalf Contributions		\$592,395	

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

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

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

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

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

**Actuarial Assumptions**

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

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

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

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August, 2018	3.69% - Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported to Fidelity Index’s “20-Year Municipal GO AA Index.”
Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30 %
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post-employment Benefit Changes	None

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

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

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

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

\* Target Allocations are based on the FY 2016 policy model

\*\* Capital market assumptions are the same from Aon Hewitt (2017 Q4)

\*\*\* The Expected Contribution to Long-term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

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

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	\$8,129,483	\$5,386,475	\$3,165,848

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At August 31, 2019, the District reported a liability of \$5,386,475 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 5,386,475
State's proportionate share that is associated with District	9,685,251
<b>Total</b>	<b>\$15,071,726</b>

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

On August 31, 2018, the District's proportion of the collective net pension liability was 0.0097860421% which was a decrease of 0.0003581372% from the proportion measured as of August 31, 2017.

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

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

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

For the year ended August 31, 2019, the District recognized pension expense of \$1,714,405 and revenue of \$958,582 for support provided by the State in the Government-Wide Financial Statement of Activities.

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



	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 33,575	\$ 132,163
Changes in actuarial assumptions	1,942,084	60,690
Net difference between projected and actual investment earnings	0	102,205
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	550,455	229,519
Total as of August 31, 2018 measurement date	<u>2,526,114</u>	<u>524,577</u>
Contributions paid to TRS subsequent to the measurement date	324,724	0
Total	<u><u>\$2,850,838</u></u>	<u><u>\$524,577</u></u>

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

Year ended August 31:	Pension Expense Amount
2020	\$565,668
2021	350,583
2022	288,659
2023	312,191
2024	283,888
Thereafter	200,548

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

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

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

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

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

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

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

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

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

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

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

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

Contribution Rates		
	2018	2019
Active Employee	0.65%	0.65%
Non-employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year Employer Contributions		\$104,423
Current fiscal year Member Contributions		\$69,472
2018 measurement year NECE On-Behalf Contributions		\$132,688

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

With Senate Bill 1, 85<sup>th</sup> Legislature, Regular Session, TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in the fiscal year 2018. House Bill 30 of the 85<sup>th</sup> Legislature provided an additional \$212 million in one-time supplemental funding for the fiscal year 2018-2019 biennium. One-time supplemental contributions during fiscal 2018 total \$394.6 million.

**Actuarial Assumptions** – The total OPEB liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.69% - Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in the Fidelity Index's "20-Year Municipal GO AA Index: as of August 31, 2018
Aging Factors	Based on Plan Specific Experience
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% - 9.05%
Ad-hoc Post Employment Benefit Changes	None

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

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

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

**Discount Rate** – A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of .27 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was adopted for all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Net OPEB Liability:**

**Discount Rate Sensitivity Analysis** - The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District’s proportionate share of the Net OPEB liability:	\$9,381,811	\$7,881,600	\$6,694,835

**Healthcare Cost Trend Rates Sensitivity Analysis** – The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percent lower or one-percent higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District’s proportionate share of the Net OPEB liability:	\$6,545,797	\$7,881,600	\$9,640,881

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - At August 31, 2019, the District reported a liability of \$7,881,600 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s Proportionate share of the collective net OPEB liability	\$ 7,881,600
State’s proportionate share that is associated with District	9,617,517
Total	<u>\$17,499,117</u>

The Net OPEB Liability was measured as of August 31, 2018, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District’s proportion of the Net OPEB Liability was based on the District’s contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017, thru August 31, 2018.

At August 31, 2018, the District's proportion of the collective Net OPEB Liability was 0.0157850090% compared to the 0.0171134466 as of August 31, 2017. This is a decrease of 0.0013284376%.

***Changes in Actuarial Assumptions Since the Prior Actuarial Valuation*** – The following were changes in the actuarial assumptions or other inputs that affected the measurement of the Total OPEB liability since the prior measurement period.

1. Adjustments were made for retirees that were known to have discontinued their health care coverage in the fiscal year 2018. This change increased the Total OPEB Liability.
2. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
3. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
4. The discount rate changed from 3.42 percent as of August 31, 2017, to 3.69 percent as of August 31, 2018. This change lowered the Total OPEB Liability to \$2.3 billion.

***Changes in Benefit Terms:*** The 85<sup>th</sup> Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017.

5. Created a high-deductible health plan that provides a zero cost for generic prescriptions, for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017, and are not eligible to enroll in Medicare.
6. Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
7. Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
8. Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
9. Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$439,946 and revenue of \$349,828 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$418,247	\$ 124,383
Changes in actuarial assumptions	131,523	2,367,968
Net difference between projected and actual investment earnings	1,378	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	28	728,868
Total as of August 31, 2018 measurement date	551,176	3,221,219
Contributions paid to TRS subsequent to the measurement date	104,423	0
Total	<u>\$655,599</u>	<u>\$3,221,219</u>

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

Year ended August 31:	OPEB Expense Amount
2020	\$(400,867)
2021	(400,867)
2022	(400,867)
2023	(401,128)
2024	(401,277)
Thereafter	(665,037)

**T. Medicare Part D Coverage**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on-behalf of the District were \$43,543, \$36,159, and \$35,527, respectively. These payments are recorded as equal revenues and expenditures in the governmental fund financial statements of the District.

**U. Active Employee Health Care Coverage**

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. The plan is authorized by the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and by the Texas Administrative Code, Title 34, Part 3, Chapter 41. The District contributed \$250 per month per participant to the plan, and employees, at their option, authorized payroll withholdings to pay employee contributions and additional premiums for dependents. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS ActiveCare. That report may be obtained by visiting the TRS Website at

[www.trs.state.tx.us](http://www.trs.state.tx.us), by writing the Communications Department of the Texas Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling (800) 223-8778.

## **V. Commitments and Contingencies**

### **1. State and Federal Grants**

Minimum foundation funding received from TEA is based primarily upon information concerning average daily attendance at the District's schools which is compiled by the District and supplied to TEA. Federal funding for Food Service under child nutrition programs is based primarily on the number and type of meals served and on user charges as reported to the United States Department of Agriculture ("USDA"). Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District's administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

### **2. Litigation**

The District is not a party in any litigation.

## **W. Risk Management**

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

## **X. Chapter 41 School District**

The District is considered as a Chapter 41 School District and is required by the Texas Education Agency, under Option 3, to remit a portion of its collected ad valorem taxes to the Texas Education Agency. For the current year, this amount was \$1,242,725.

## **Y. Evaluation of Subsequent Events**

The District has evaluated subsequent events through November 15, 2019, the date which the financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY INFORMATION**

GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 12,954,923	\$ 12,954,923	\$ 13,515,550	\$ 560,627
5800 State Program Revenues	3,156,974	3,156,974	2,410,420	(746,554)
5900 Federal Program Revenues	209,500	237,500	348,459	110,959
5020 Total Revenues	16,321,397	16,349,397	16,274,429	(74,968)
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	8,188,608	8,323,381	8,323,159	222
0012 Instructional Resources and Media Services	109,461	106,603	99,484	7,119
0013 Curriculum and Instructional Staff Development	110,302	116,509	110,669	5,840
0021 Instructional Leadership	169,483	176,484	174,511	1,973
0023 School Leadership	819,140	870,628	867,740	2,888
0031 Guidance, Counseling and Evaluation Services	669,512	674,217	673,474	743
0032 Social Work Services	41,788	43,788	43,296	492
0033 Health Services	186,988	196,472	195,353	1,119
0034 Student (Pupil) Transportation	834,095	935,007	898,846	36,161
0036 Extracurricular Activities	862,137	866,000	864,065	1,935
0041 General Administration	1,013,198	650,050	616,600	33,450
0051 Facilities Maintenance and Operations	1,996,622	2,137,937	2,111,589	26,348
0052 Security and Monitoring Services	26,700	31,700	35,443	(3,743)
0053 Data Processing Services	87,349	114,946	103,848	11,098
0061 Community Services	197,305	271,945	262,575	9,370
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	1,008,709	1,282,077	1,247,663	34,414
0099 Other Intergovernmental Charges	-	402,132	391,858	10,274
6030 Total Expenditures	16,321,397	17,199,876	17,020,173	179,703
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(850,479)	(745,744)	104,735
<b>OTHER FINANCING SOURCES (USES):</b>				
7912 Sale of Real and Personal Property	-	-	14,615	14,615
7915 Transfers In	-	-	142,894	142,894
7080 Total Other Financing Sources (Uses)	-	-	157,509	157,509
1200 Net Change in Fund Balances	-	(850,479)	(588,235)	262,244
0100 Fund Balance - September 1 (Beginning)	6,036,022	6,036,022	6,036,022	-
3000 Fund Balance - August 31 (Ending)	\$ 6,036,022	\$ 5,185,543	\$ 5,447,787	\$ 262,244

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GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2019

	FY 2019 <u>Plan Year 2018</u>	FY 2018 <u>Plan Year 2017</u>	FY 2017 <u>Plan Year 2016</u>
District's Proportion of the Net Pension Liability (Asset)	0.009786042%	0.0101442%	0.0106329%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 5,386,475	\$ 3,243,562	\$ 4,018,013
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	9,685,251	5,996,538	7,296,154
Total	<u>\$ 15,071,726</u>	<u>\$ 9,240,100</u>	<u>\$ 11,314,167</u>
District's Covered Payroll	\$ 11,247,687	\$ 11,591,603	\$ 11,679,199
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	47.89%	27.98%	34.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.74%	82.17%	78.00%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only five years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

	FY 2016 Plan Year 2015		FY 2015 Plan Year 2014
	0.011%		0.07%
\$	3,715,958	\$	1,777,402
	7,376,096		6,686,545
\$	<u>11,092,054</u>	\$	<u>8,463,947</u>
\$	11,486,805	\$	11,422,065
	32.35%		15.56%
	78.43%		83.25%

GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2019

	2019	2018	2017
Contractually Required Contribution	\$ 324,724	\$ 331,691	\$ 333,719
Contribution in Relation to the Contractually Required Contribution	(324,724)	(331,691)	(333,719)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 10,699,804	\$ 11,247,687	\$ 11,591,603
Contributions as a Percentage of Covered Payroll	3.03%	2.95%	2.88%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

<hr/>	
2016	2015
<hr/>	
\$ 338,172	\$ 171,457
(338,172)	(171,457)
<hr/>	
\$ -	\$ -
<hr/> <hr/>	
\$ 11,679,199	\$ 11,486,805
2.90%	1.49%

GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.015785009%	0.0171134%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 7,881,600	\$ 7,441,996
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	9,617,517	9,101,592
Total	<u>\$ 17,499,117</u>	<u>\$ 16,543,588</u>
District's Covered Payroll	\$ 11,247,687	\$ 11,591,603
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	70.07%	64.20%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.57%	0.91%

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

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



GROESBECK INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2019

	2019	2018
Contractually Required Contribution	\$ 104,423	\$ 92,309
Contribution in Relation to the Contractually Required Contribution	(104,423)	(92,309)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
District's Covered Payroll	\$ 10,687,754	\$ 11,247,687
Contributions as a Percentage of Covered Payroll	0.98%	0.82%

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

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

A. Notes to Schedule for the TRS Pension

*Changes in Benefit terms*

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

*Changes in Assumptions*

Assumptions, methods, and plan changes that are specific to the Pension Trust Fund were updated from the prior year report. The Net Position Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

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

B. Notes to Schedules for the TRS OPEB Plan

*Changes in Benefit*

The 85<sup>th</sup> Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare eligible participants.
- Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and the eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

*Changes in Assumption*

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in the fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate changed from 3.42 percent as of August 31, 2017, to 3.69 percent, as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.

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

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

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

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COMBINING SCHEDULES

GROESBECK INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2019

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ (56,871)	\$ (22,363)	\$ -	\$ 89,330
1240 Due from Other Governments	96,265	61,120	-	46,153
1300 Inventories	-	-	-	20,293
1000 Total Assets	<u>\$ 39,394</u>	<u>\$ 38,757</u>	<u>\$ -</u>	<u>\$ 155,776</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ -	\$ 23,839	\$ -	\$ 41,350
2160 Accrued Wages Payable	30,138	6,537	-	18,187
2170 Due to Other Funds	6,516	7,723	-	43,500
2200 Accrued Expenditures	2,740	658	-	383
2300 Unearned Revenue	-	-	-	-
2000 Total Liabilities	<u>39,394</u>	<u>38,757</u>	<u>-</u>	<u>103,420</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	-	-	-	20,293
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	-	32,063
3490 Other Restricted Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,356</u>
4000 Total Liabilities and Fund Balances	<u>\$ 39,394</u>	<u>\$ 38,757</u>	<u>\$ -</u>	<u>\$ 155,776</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ 5,898	\$ 5,688	\$ (23,193)	\$ 330	\$ 5,879	\$ 27,615	\$ 4,565	\$ 18,585
1,455	14,399	23,193	201	2,600	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 7,353</u>	<u>\$ 20,087</u>	<u>\$ -</u>	<u>\$ 531</u>	<u>\$ 8,479</u>	<u>\$ 27,615</u>	<u>\$ 4,565</u>	<u>\$ 18,585</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	7,754	-	-
7,353	20,087	-	531	8,479	-	4,565	441
-	-	-	-	-	140	-	-
-	-	-	-	-	19,721	-	-
<u>7,353</u>	<u>20,087</u>	<u>-</u>	<u>531</u>	<u>8,479</u>	<u>27,615</u>	<u>4,565</u>	<u>441</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	18,144
-	-	-	-	-	-	-	18,144
<u>\$ 7,353</u>	<u>\$ 20,087</u>	<u>\$ -</u>	<u>\$ 531</u>	<u>\$ 8,479</u>	<u>\$ 27,615</u>	<u>\$ 4,565</u>	<u>\$ 18,585</u>

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GROESBECK INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2019

Data Control Codes	Total Nonmajor Special Revenue Funds	618 Capital Projects Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 55,463	\$ -	\$ 55,463
1240 Due from Other Governments	245,386	-	245,386
1300 Inventories	20,293	-	20,293
1000 Total Assets	<u>\$ 321,142</u>	<u>\$ -</u>	<u>\$ 321,142</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 65,189	\$ -	\$ 65,189
2160 Accrued Wages Payable	62,616	-	62,616
2170 Due to Other Funds	99,195	-	99,195
2200 Accrued Expenditures	3,921	-	3,921
2300 Unearned Revenue	19,721	-	19,721
2000 Total Liabilities	<u>250,642</u>	<u>-</u>	<u>250,642</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	20,293	-	20,293
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	32,063	-	32,063
3490 Other Restricted Fund Balance	18,144	-	18,144
3000 Total Fund Balances	<u>70,500</u>	<u>-</u>	<u>70,500</u>
4000 Total Liabilities and Fund Balances	<u>\$ 321,142</u>	<u>\$ -</u>	<u>\$ 321,142</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 110,616
5800 State Program Revenues	-	-	-	61,900
5900 Federal Program Revenues	393,356	443,823	9,982	760,671
5020 Total Revenues	393,356	443,823	9,982	933,187
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	390,056	343,607	-	-
0013 Curriculum and Instructional Staff Development	3,300	3,712	-	-
0031 Guidance, Counseling and Evaluation Services	-	96,504	9,982	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	948,340
0036 Extracurricular Activities	-	-	-	-
0053 Data Processing Services	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	393,356	443,823	9,982	948,340
1200 Net Change in Fund Balance	-	-	-	(15,153)
0100 Fund Balance - September 1 (Beginning)	-	-	-	67,509
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ 52,356

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	7,806
-	-	-	-	-	228,729	9,903	-
25,448	65,058	95,173	25,554	14,031	-	-	-
25,448	65,058	95,173	25,554	14,031	228,729	9,903	7,806
25,348	28,250	83,258	20,678	14,031	157,558	9,903	-
100	36,808	-	4,876	-	687	-	-
-	-	-	-	-	-	-	-
-	-	11,915	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	7,991
-	-	-	-	-	70,484	-	-
-	-	-	-	-	-	-	-
25,448	65,058	95,173	25,554	14,031	228,729	9,903	7,991
-	-	-	-	-	-	-	(185)
-	-	-	-	-	-	-	18,329
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	18,144

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

Data Control Codes	Total Nonmajor Special Revenue Funds	618 Capital Projects Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 118,422	\$ 5,837	\$ 124,259
5800 State Program Revenues	300,532	-	300,532
5900 Federal Program Revenues	1,833,096	-	1,833,096
5020 Total Revenues	<u>2,252,050</u>	<u>5,837</u>	<u>2,257,887</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	1,072,689	-	1,072,689
0013 Curriculum and Instructional Staff Development	49,483	-	49,483
0031 Guidance, Counseling and Evaluation Services	106,486	-	106,486
0034 Student (Pupil) Transportation	11,915	55,074	66,989
0035 Food Services	948,340	-	948,340
0036 Extracurricular Activities	7,991	-	7,991
0053 Data Processing Services	70,484	-	70,484
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	902,374	902,374
6030 Total Expenditures	<u>2,267,388</u>	<u>957,448</u>	<u>3,224,836</u>
1200 Net Change in Fund Balance	(15,338)	(951,611)	(966,949)
0100 Fund Balance - September 1 (Beginning)	<u>85,838</u>	<u>951,611</u>	<u>1,037,449</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 70,500</u>	<u>\$ -</u>	<u>\$ 70,500</u>

**REQUIRED TEXAS EDUCATION AGENCY SCHEDULES**

GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2019

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ 2,365,037,758
2011	0.916700	0.123300	2,205,993,103
2012	0.866700	0.213300	2,025,029,980
2013	0.866700	0.213300	1,929,920,824
2014	0.816700	0.263300	1,816,539,407
2015	0.816700	0.303300	1,776,805,460
2016	0.816700	0.303300	1,690,877,869
2017	0.979700	0.188000	1,487,333,393
2018	1.040000	0.197500	1,301,833,939
2019 (School year under audit)	1.040000	0.237500	1,238,461,996
1000 TOTALS			

(10) Beginning Balance 9/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2019
\$ 99,153	\$ -	\$ 1,042	\$ 39	\$ (1,801)	\$ 96,271
13,392	-	70	9	(303)	13,010
18,702	-	1,215	299	(328)	16,860
19,030	-	1,563	385	(329)	16,753
78,728	-	3,421	1,103	(391)	73,813
76,419	-	5,321	1,976	(787)	68,335
97,862	-	13,189	4,898	(1,522)	78,253
185,826	-	23,949	4,596	(63,727)	93,554
217,311	-	112,046	21,278	62,662	146,649
-	15,821,352	12,594,815	2,876,220	(34,013)	316,304
<u>\$ 806,423</u>	<u>\$ 15,821,352</u>	<u>\$ 12,756,631</u>	<u>\$ 2,910,803</u>	<u>\$ (40,539)</u>	<u>\$ 919,802</u>

GROESBECK INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 131,341	\$ 131,341	\$ 110,616	\$ (20,725)
5800 State Program Revenues	22,717	61,217	61,900	683
5900 Federal Program Revenues	779,478	779,478	760,671	(18,807)
5020 Total Revenues	933,536	972,036	933,187	(38,849)
EXPENDITURES:				
Current:				
0035 Food Services	841,335	949,835	948,340	1,495
6030 Total Expenditures	841,335	949,835	948,340	1,495
1200 Net Change in Fund Balances	92,201	22,201	(15,153)	(37,354)
0100 Fund Balance - September 1 (Beginning)	67,509	67,509	67,509	-
3000 Fund Balance - August 31 (Ending)	\$ 159,710	\$ 89,710	\$ 52,356	\$ (37,354)



GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 2,843,145	\$ 2,843,145	\$ 2,973,864	\$ 130,719
5800 State Program Revenues	-	-	36,895	36,895
5020 Total Revenues	<u>2,843,145</u>	<u>2,843,145</u>	<u>3,010,759</u>	<u>167,614</u>
<b>EXPENDITURES:</b>				
Debt Service:				
0071 Principal on Long-Term Debt	2,345,000	2,605,000	2,433,000	172,000
0072 Interest on Long-Term Debt	497,645	237,645	389,039	(151,394)
0073 Bond Issuance Cost and Fees	500	96,655	91,644	5,011
6030 Total Expenditures	<u>2,843,145</u>	<u>2,939,300</u>	<u>2,913,683</u>	<u>25,617</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(96,155)</u>	<u>97,076</u>	<u>193,231</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7901 Refunding Bonds Issued	-	-	6,260,000	6,260,000
7911 Capital Related Debt Issued (Regular Bonds)	-	6,260,000	-	(6,260,000)
7916 Premium or Discount on Issuance of Bonds	-	405,764	442,387	36,623
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(6,569,609)	(6,569,609)
8949 Other (Uses)	-	(6,569,609)	-	6,569,609
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>96,155</u>	<u>132,778</u>	<u>36,623</u>
1200 Net Change in Fund Balances	-	-	229,854	229,854
0100 Fund Balance - September 1 (Beginning)	<u>275,913</u>	<u>275,913</u>	<u>275,913</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 275,913</u>	<u>\$ 275,913</u>	<u>\$ 505,767</u>	<u>\$ 229,854</u>

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REPORT ON INTERNAL CONTROLS, COMPLIANCE  
AND FEDERAL AWARDS

# Kirk & Richardson, P.C.

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

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Groesbeck Independent School District  
1202 N. Ellis  
Groesbeck, Texas 76642

Members of the Board of Trustees:

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Groesbeck Independent School District (the "District") as of and for the year ended August 31, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated November 15, 2019.

### **Internal Control over Financial Reports**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

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Don Richardson, CPA \* Sandhya Magar, CPA

contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Kirk & Richardson, P.C.*

Kirk & Richardson, P.C.  
Fort Worth, Texas  
November 15, 2019

# Kirk & Richardson, P.C.

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

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Groesbeck Independent School District  
1202 N. Ellis  
Groesbeck, Texas 76642

Members of the Board of Trustees:

### **Report on Compliance for Each Major Federal Program**

We have audited the Groesbeck Independent School District (the "District") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

## Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

## Report on Internal Control over Compliance

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

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

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

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

*Kirk & Richardson, P.C.*

Kirk & Richardson, P.C.  
Fort Worth, Texas  
November 15, 2019

GROESBECK INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2019

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness?	No
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>Audit Requirements for Federal Awards</i> (Uniform Guidance).	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs: 750,000.

Auditee qualified as low risk auditee?: Yes

**Section II – Findings - Financial Statement Audit**

Significant deficiencies and material weaknesses in internal control over financial reporting – None identified.

**Section III – Findings & Questioned Costs - Federal Award Programs**

Noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial amounts or other financial data significant to the audit – None identified.





# GROESBECK INDEPENDENT SCHOOL DISTRICT

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1202 N. Ellis ■ P.O. Box 559 ■ 254-729-4100 ■ Fax 254-729-2391

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James Cowley, Ed. D.  
Superintendent of Schools

## SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED AUGUST 31, 2019

PRIOR YEAR'S FINDING/NONCOMPLIANCE:

None required.



# GROESBECK INDEPENDENT SCHOOL DISTRICT

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1202 N. Ellis ■ P.O. Box 559 ■ 254-729-4100 ■ Fax 254-729-2391

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James Cowley, Ed. D.  
Superintendent of Schools

## CORRECTIVE ACTION PLAN FOR THE YEAR ENDED AUGUST 31, 2019

CORRECTIVE ACTION PLAN:

Contact Person: Dr. James B. Cowley  
1-254-729-4100

None required.

GROESBECK INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2019

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101147902	\$ 405,011
*IDEA - Part B, Formula	84.027	186600011479026000	101,179
*IDEA - Part B, Formula	84.027	196600011479026000	352,870
Total CFDA Number 84.027			454,049
*IDEA - Part B, Preschool	84.173	186610011479026000	2,667
*IDEA - Part B, Preschool	84.173	196610011479026000	7,315
Total CFDA Number 84.173			9,982
Total Special Education Cluster (IDEA)			464,031
Career and Technical - Basic Grant	84.048	19420006147902	25,494
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	196950197110028	95,173
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	19696001147902	26,311
ESEA, Title II, Part A, Teacher Principal Training	84.367A	19694501147902	67,008
Title IV, Part A, Subpart 1	84.424	19680101147902	14,447
Total Passed Through State Department of Education			1,097,475
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			1,097,475
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Child Care & Development Block Grant	93.575	147902	35,490
Total Passed Through Texas Dept of Human Services			35,490
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			35,490
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		297,109
*National School Lunch Program - Cash Assistance	10.555		436,673
*National School Lunch Prog. - Non-Cash Assistance	10.555		47,495
Total CFDA Number 10.555			484,168
Total Child Nutrition Cluster			781,277
Total Passed Through the State Department of Agriculture			781,277
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			781,277
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 1,914,242

\*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

GROESBECK INDEPENDENT SCHOOL DISTRICT  
 NOTES TO SCHEDULE OF EXPENDITURES TO FEDERAL AWARDS  
 AUGUST 31, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Groesbeck Independent School District (the “District”) under programs of the federal government for the year ended August 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of District it is not intended to and does not present the financial position, changes in net position, or cash flows of the District

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C—INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – RECONCILIATION OF EXPENDITURES OF FEDERAL AWARDS

The following is a reconciliation of expenditures of federal awards program per the Schedule of Expenditures of Federal Awards and expenditures reported in the financial statements as follows:

Total federal sources per financial statements for Governmental Funds	\$2,181,555
School Health & Related Services (SHARS) reimbursement not reported in the Schedule of Expenditures of Federal Awards	<u>(267,313)</u>
Total federal expenditures on Schedule of Expenditures of Federal Awards	<u><u>\$1,914,242</u></u>



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