

**NEW ISSUE BOOK-ENTRY-ONLY**

Ratings - Moody's: "Aaa"/"A1" (Underlying)  
PSF Guaranteed  
(See "RATINGS" and "THE PERMANENT  
SCHOOL FUND GUARANTEE PROGRAM" herein)

**OFFICIAL STATEMENT**

**Dated: May 28, 2020**

*In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.*

**THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

**\$4,237,957.40**

**ENNIS INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Ellis and Navarro Counties, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**Dated Date: June 1, 2020**

**Due: August 15, as shown on page ii**

**(Current Interest Bonds - Interest to accrue from Dated Date)  
(Capital Appreciation Bonds - Interest to accrete from Delivery Date)**

The \$4,237,957.40 Ennis Independent School District Unlimited Tax Refunding Bonds, Series 2020, (the "Bonds") are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs") (as shown on page ii hereof) in accordance with the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code ("Chapter 1207"), as amended, and an order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Ennis Independent School District (the "District"). (See "THE BONDS - Authority for Issuance" herein.) In the Bond Order, the Board delegated to an officer of the District, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The final terms of sale are included in a "Pricing Certificate" which establishes the final terms with respect to the sale and issuance of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). The Bonds are payable as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

Interest on the CIBs will accrue from the Dated Date and will be payable on February 15, 2021 and on each August 15 and February 15 thereafter, until stated maturity. Interest on the CABs will accrete from the date they are initially delivered to Underwriter, compounded semiannually on each February 15 and August 15 of each year (each an "Accretion Date"), commencing August 15, 2020 and be payable upon maturity. The CIBs will be issued as fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued as fully registered bonds in denominations of \$5,000 representing the total amount of principal, plus the initial premium, if any, paid therefor and accreted interest payable upon stated maturity (the "Maturity Value"), or any integral multiple thereof for a Maturity Value. The principal of the CIBs at maturity and the Maturity Amount of the CABs at maturity will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar"), which initially is BOKF, NA, Dallas, Texas, upon presentation and surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC (defined below) nominee) is the registered owner of the Bonds, all payments will be made as described under "Book-Entry-Only System" herein. Interest on the CIBs 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 District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used (i) to refund certain outstanding debt of the District (the "Refunded Bonds") for debt service savings and (ii) to pay costs related to the issuance of the Bonds. (See "Schedule I – Schedule of Refunded Bonds" herein; See also "The Bonds – Authorization and Purpose" herein.)

The CIBs and the CABs are not subject to redemption prior to their stated maturity. (See "THE BONDS – No Redemption Provisions").

**STATED MATURITY SCHEDULE**

**(On Page ii)**

*The Bonds are offered for delivery when, as and if received by the Underwriter listed below and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Dallas, Texas, as counsel to the Underwriter. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about July 1, 2020.*

**RBC Capital Markets**

**\$4,237,957.40**  
**ENNIS INDEPENDENT SCHOOL DISTRICT**  
**Unlimited Tax Refunding Bonds, Series 2020**

**MATURITY SCHEDULE**  
**CUSIP Base Number: 293443<sup>(a)</sup>**

**\$ 3,550,000 Current Interest Bonds**<sup>(b)</sup>

<b>Maturity Date 8/15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix No.<sup>(a)</sup></b>
2021	\$1,205,000.00	5.000%	0.330%	E52
2022	980,000.00	5.000%	0.430%	E60
2023	415,000.00	5.000%	0.550%	E78
2024	250,000.00	5.000%	0.620%	E86
2025	700,000.00	5.000%	0.710%	E94

(Interest to accrue from the Dated Date)

**\$ 687,957.40 Premium Capital Appreciation Bonds**<sup>(b)</sup>

<b>Maturity Date 8/15</b>	<b>Original Principal Amount</b>	<b>Initial Yield to Maturity</b>	<b>Maturity Value</b>	<b>Initial Offering Price per \$5,000 in Maturity Value</b>	<b>CUSIP Suffix No.<sup>(a)</sup></b>
2026	\$ 195,532.70	1.140%	\$ 745,000.00	\$ 4,663.85	F28
2027	161,369.10	1.290%	765,000.00	4,562.40	F36
2028	132,241.20	1.400%	780,000.00	4,464.30	F44
2029	109,008.00	1.500%	800,000.00	4,362.80	F51
2030	89,806.40	1.620%	820,000.00	4,246.55	F69

(Interest to accrete from the date of initial delivery)

See "SCHEDULE II – SCHEDULE OF ACCRETED VALUES OF PREMIUM CAPITAL APPRECIATION BONDS" herein for a table of the accreted values of the Premium Capital Appreciation Bonds (per \$5,000 Maturity Value), at certain periodic dates.

<sup>(a)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), 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 services provided by CGS. None of the District, the Financial Advisor or the Underwriter is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

<sup>(b)</sup> The CIBs and the CABS are not subject to redemption prior to their stated maturity.

**ENNIS INDEPENDENT SCHOOL DISTRICT**  
**303 W. Knox St.**  
**Ennis, Texas 75119**  
**(972) 872-7000**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Year First Elected</u>	<u>Term Expires (May)</u>	<u>Occupation / Employer</u>
Mr. Bramlet Beard - President	2010	2022	President / CEO – Ennis State Bank
Ms. Julie Pierce - Vice President	2013	2022	Bank CFO - Ennis State Bank
Mr. Walter Beasley - Secretary	1997	2021	Retired - Machinist
Mr. Kelly McManus	2014	Nov. 2020	Self Employed - Valvoline Express Care
Ms. Jennifer Haden	2014	Nov. 2020	Officer at Republic Title Company
Mr. John Erisman	2018	2021	Retired Police Chief
Mr. Bill Chapman	2018	2021	Retired School Administrator

**ADMINISTRATION**

<u>Name</u>	<u>Position</u>	<u>Years of Experience</u>	<u>Years of Service With District</u>
Mr. Jay Tullos	Superintendent	27 years	1 year
Ms. Lisa Fincher	Chief Financial Officer	19 years	19 years
Mr. Jason Gilstrap	Assistant Superintendent of Human Services	21 years	4 year

**CONSULTANTS AND ADVISORS**

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas
Certified Public Accountants	Judd, Thomas, Smith & Company, P.C. Dallas, Texas

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained 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 since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the District to provide certain information on a continuing basis. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" for a description of the undertakings of the Texas Education Agency (the "TEA") to provide certain information on a continuing basis.

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 purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION PROVIDED THEREUNDER BY SECTION 3(a)(2) OF SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, THE UNDERWRITER OR THE FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" HEREIN, AS SUCH INFORMATION HAS BEEN FURNISHED BY DTC AND THE 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.

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

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*The cover page, subsequent pages hereof, Schedules I and II and appendices attached hereto are part of this Official Statement.*

## SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data below 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>	Ennis Independent School District (the "District") is a political subdivision located in Ellis and Navarro Counties, Texas organized and existing under the laws of the State of 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. (See Appendix B – General Information Regarding the District, the City of Ennis and Ellis County, Texas.)
<b>The Bonds</b>	The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code (Chapter 1207"), as amended, and an order (the "Bond Order") adopted by the Board. In the Bond Order, the Board delegated to an officer of the District, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The final terms of sale are included in a "Pricing Certificate" which establishes the final terms with respect to the sale and issuance of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"). (See "THE BONDS – Authorization and Purpose" and "SCHEDULE II - Schedule of Accreted Values of Premium Capital Appreciation Bonds".)
<b>Use of Bond Proceeds</b>	Proceeds from the sale of the Bonds will be used (i) to refund certain outstanding debt of the District (the "Refunded Bonds") for debt service savings and (ii) to pay the costs of issuance of the Bonds. (See "THE BONDS – Authorization and Purpose" and "Schedule I – Schedule of Refunded Bonds" herein.)
<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. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
<b>Security</b>	The Bonds will constitute direct and general obligations of the District, payable as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)
<b>No Redemption Provisions</b>	The Bonds are not subject to redemption prior to their stated maturity. (See "THE BONDS – No Redemption Provisions").
<b>Tax Exemption</b>	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein. (See "TAX MATTERS" and "APPENDIX C – Form of Opinion of Bond Counsel" herein.)
<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" herein.
<b>Ratings</b>	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the Texas Permanent School Fund Guarantee. The District's unenhanced underlying rating without regard to credit enhancement, including the Bonds, is "A1" from Moody's. An explanation of the significance of such ratings may be obtained from the rating agency. (See "RATING" herein.)
<b>Payment Record</b>	The District has never defaulted in its payment of its obligations.
<b>Delivery</b>	When issued, on or about July 1, 2020.
<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 McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

## INTRODUCTORY STATEMENT

This Official Statement, including Schedule I, Schedule II and Appendices A, B and D, has been prepared by the Ennis Independent School District, in Ellis and Navarro Counties, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds") identified on the cover page hereof.

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

There follow in this Official Statement descriptions of the Bonds and the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Ennis Independent School District, PO Box 1420, Ennis, Texas 75120 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement pertaining to the Bonds will be filed electronically with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") website at [www.emma.msrb.org](http://www.emma.msrb.org). See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertaking of the District to provide certain information on a continuing basis.

## THE BONDS

### Authorization and Purpose

The \$4,237,957.40 Ennis Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds"), are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board"). In the Bond Order, the Board delegated to an officer of the District, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The terms of sale are included in a "Pricing Certificate" which establishes the final terms with respect to the sale and issuance of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used (i) to refund certain outstanding debt of the District (the "Refunded Bonds") for debt service savings and (ii) to pay the costs of issuance of the Bonds. (See "Schedule I – Schedule of Refunded Bonds".)

### Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the scheduled principal and interest payment dates and the redemption date of the Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, N.A., Dallas, Texas (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriter and other available funds of the District, the District will deposit with the Escrow Agent the amount necessary, taking into account investment earnings of the Escrow Securities (defined below), if any, to accomplish the payment, discharge and final payment of the Refunded Bonds on the redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and held in cash or used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorizes securities, including direct noncallable obligations of the United States and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and guaranteed by the full faith and credit of the United States of America (the "Escrow Securities") maturing in time and amounts to make such payment. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited in the Escrow Fund to pay the principal of and interest on the Refunded Bonds on the Redemption Date (the "Sufficiency Certificate"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

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

### General Description

The Bonds will be dated June 1, 2020 (the "Dated Date"). The Current Interest Bonds ("CIBs") will bear interest from the Dated Date. The Premium Capital Appreciation Bonds ("CABs") will accrete interest from the date of initial delivery to the Underwriter set forth on the cover hereof (the "Underwriter") to their stated maturity on the dates and in the principal amounts set forth on page ii of this Official

Statement. The CABs will mature on the dates and in the Maturity Values set forth on page ii, and will accrete interest at the stated interest rate, but the yield to the Underwriter will be the approximate yield shown on the page ii resulting from the initial offering price to the public. Interest on the CIBs is payable initially on February 15, 2021, and on each August 15 and February 15 thereafter until stated maturity. The sum of the principal of the CABS, the initial premium thereon, if any, and accreted/compounded interest to maturity (the "Maturity Value") is payable at maturity.

Interest on the CABs will compound semiannually on each February 15 and August 15, commencing August 15, 2020 until stated maturity. The sum of the principal of, interest accreted on and the initial premium, if any, on the CABs per \$5,000 Maturity Value as of each February 15 and August 15 (each, a "Compounding Date") is computed on the basis of the initial offering prices to the public as adjusted by semiannual compounding at the initial offering yields set forth on page ii of this Official Statement (such sum is the "Accreted Value"). A table of Accreted Values for each Compounding Date based on such initial offering price is set forth in Schedule II hereto. Such Accreted Value table is provided for informational purposes only and may not reflect prices for the CABs in the secondary market.

The Bonds will be issued only as fully registered bonds. The CIBs will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a stated maturity. The CABs will be issued in the denominations of \$5,000 of Maturity Value or any integral multiple thereof. Interest on the CIBs 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. The record date (the "Record Date") for determining the party to whom the interest on a CIB is payable on any interest payment date is the close of business on the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date" herein). The principal of the CIBs at maturity, the Maturity Amount of the CABs at maturity, will be payable only upon presentation of the Bonds at the corporate trust office of the Paying Agent/Registrar at maturity. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company New York, New York ("DTC"), all payments with respect to the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for any payment due on any Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of 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 such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

### **No Redemption Provisions**

The Bonds are not subject to redemption prior to their stated maturity.

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

The approximate yields of the CABs, as set forth on page ii of this Official Statement, are based upon the initial offering prices therefor set forth on page ii of this Official Statement. Such offering prices include the principal amounts of the CABs plus premiums, if any, equal to the amounts by which such offering prices exceed the respective principal amounts of such Bonds. The respective yields on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuation in the secondary market than securities that pay interest on a periodic basis.

### **Security**

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. The District has received conditional approval from the Texas Education Agency 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 submitted an application to the Texas Education Agency and received conditional approval from the Commissioner of Education 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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES" herein.



## **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 McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C – Form of Opinion of Bond Counsel").

## **Payment Record**

The District has never defaulted on its payment obligations.

## **Amendments**

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal and Maturity Value of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal or Maturity Value of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal or Maturity Value of or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal and Maturity Value of the Bonds necessary for consent to such amendment.

## **Defeasance**

The Order provides for the defeasance of the Bonds when payment of the principal amount of the CIBs and Maturity Value or Accreted Value of the CABs, as applicable, plus interest accrued on the CIBs to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will 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, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of Bonds have been made as described above, all rights of the District to take any other action amending the terms of such Bonds are extinguished.

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

**Sources and Uses of Funds**

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

<u>Sources of Funds</u>	<u>Amount</u>
Principal Amount of Bonds	\$4,237,957.40
Accrued Interest	14,791.67
Reoffering Premium	3,205,756.40
Issuer Contribution	14,791.67
<b>Total Sources of Funds</b>	<u><u>\$7,473,297.14</u></u>

<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$7,311,470.41
Costs of Issuance	105,242.09
Underwriter's Discount	41,792.97
Interest & Sinking Fund Deposit (Accrued Interest)	14,791.67
<b>Total Uses of Funds</b>	<u><u>\$7,473,297.14</u></u>

**REGISTERED OWNERS' REMEDIES**

The Order establishes specific events of default with respect to the Bonds and provides that 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. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds but, in connection with the issuance of the Bonds the District has not relied on Chapter 1371 nor waived the defense of sovereign immunity. As a result, bondholders may not be able to bring such a suit against the District for breach of Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the 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.

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. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

**BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal, interest, Maturity Value and accreted value of the Bonds, as applicable, 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 Underwriter and the District believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC will act as bond depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Maturity Value of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for or 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.

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

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 Bonds 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, Bond certificates will be printed and delivered to DTC for distribution to the Beneficial Owners.

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

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

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

#### **Effect of Termination of Book-Entry-Only System**

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

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

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

The initial Paying Agent/Registrar 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, a trust company organized under the laws of the State of Texas 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, printed Bond certificates will be delivered to the owners of the Bonds and thereafter, 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 being transferred or exchanged at the designated corporate 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 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 or Maturity Value as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

#### **Record Date**

The Record Date for determining the party to whom the interest payable on a CIB 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 CIB 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**

The Paying Agent/Registrar shall not be required to make any such transfer or exchange with respect to the CIBs during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

### **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal or Maturity Value, as applicable 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.

## **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 Collin County Appraisal District (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 market 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 market 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 and Goods-In-Transit Exemptions**

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

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

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

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on December 15, 1956 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt". In connection with prior issues, the District has used State financial assistance other than EDA or IFA allotment funding but has not used 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.

## **DEBT LIMITATIONS**

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS." The Bonds are not new debt and therefore are not subject to the \$0.50 threshold tax rate test.

## **THE PROPERTY TAX CODE AS APPLIED TO THE ENNIS INDEPENDENT SCHOOL DISTRICT**

Each Appraisal District has the responsibility for appraising property in the District as well as other taxing units in each of the respective county political subdivisions. Each Appraisal District is governed by a board of directors appointed by voters of the governing bodies of the respective county political subdivisions.

Neither split payments of taxes nor discounts for early payment of taxes are permitted.

The District does not exempt Article VIII, Section 1-j ("freeport") property.

The District does not exempt "goods-in-transit".

The District grants an exemption of \$12,000 to the market value of the residence homestead of persons 65 years of age or older.

The District does not grant an additional exemption of 20% of the market value of residence homesteads.

The District no longer grants tax abatements.

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

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.

## **INFECTIOUS DISEASE OUTBREAK – COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed limitations on social gatherings of more than 10 people and temporarily closed school districts throughout the state through April 3, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. On March 31, 2020, the Governor issued Executive Order GA-14 extending school closures until May 4, 2020 and on April 17, 2020, the Governor issued Executive Order GA-16, which extended the school closures for the remainder of the 2019-2020 school year. In public statements, the Commissioner of the TEA has indicated that the state will continue to evaluate the need for further extensions of school closures. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District is currently developing remote instructional resources for its students and will begin delivering remote instruction in the near future.

Therefore, the District does not anticipate a reduction in state funding as a result of the school closures at this time. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. See “APPENDIX A – Financial Information of the District – Assessed Valuation.” The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

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

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

The financial and operating data contained in this official statement are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

*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 (as defined herein) 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 (96<sup>th</sup>) 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, Instructional 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.

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

For the 2019-2020 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

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

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

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

#### **History and Purpose**

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 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, 2019, 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, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 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, as approved by State voters at the November 5, 2019 referendum.

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

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 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 large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency), and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. In accordance with legislation enacted during the 86<sup>th</sup> Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be

invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% in unallocated cash.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from \$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 March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At March 24, 2020, there were 183 active open-enrollment charter schools in the State and there were 790 charter school campuses operating under such charters (though as of such date, four 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 Capacity 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. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the 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 February 29, 2020, the Charter District Reserve Fund contained \$35,183,564, which represented approximately 1.49% 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.

### **Infectious Disease Outbreak**

A respiratory disease named "2019 novel coronavirus" ("COVID-19") has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S. president declared a national emergency and the Governor of Texas (the "Governor") declared COVID-19 as a statewide public health disaster (the "COVID-19 Declarations"). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

#### *Potential Impact of COVID-19 in the State and Investment Markets*

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, will likely adversely impact State, national and global economic activities and, accordingly, materially adversely impact the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

#### *TEA Continuity of Operations*

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under "The School District Bond Guarantee Program," the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

#### **Impact of COVID-19 on School Districts and Charter Districts**

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, PSF management is of the view that scheduled bond payments for school districts for the 2020 calendar year are unlikely to be affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding, among other matters, the closure of schools, and TEA has established waivers for payment to school districts and charter districts, as such payments are in large part based on school attendance. Those waivers are intended to provide continued funding during the period of closure, although certain of the waivers require schools to provide on-line or at home curriculum in order to benefit from waivers. Reference is made to "Charter School Risk Factors," herein for a description of unique circumstances that pertain to the funding of charter districts.

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

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

#### **Valuation of the PSF and Guaranteed Bonds**

##### Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2015	\$29,081,052,900	\$36,196,265,273
2016	30,128,037,903	37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019 <sup>(2)</sup>	35,288,344,219	46,464,447,981

<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 February 29, 2020, the PSF had a book value of \$35,908,691,818 and a market value of \$46,992,040,588. February 29, 2020 values are based on unaudited data, which is subject to adjustment.



<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
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 and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 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	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
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	82,537,755,203	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 February 29, 2020 (based on unaudited data, which is subject to adjustment), there were \$87,684,853,251 of bonds guaranteed under the Guarantee Program, representing 3,361 school district issues, aggregating \$85,321,228,251 in principal amount and 54 charter district issues, aggregating \$2,363,625,000 in principal amount. At February 29, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$4,551,091,422 (based on unaudited data, which is subject to adjustment).

#### **Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2019**

The following discussion is derived from the Annual Report for the year ended August 31, 2019, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2019, 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 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE 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, 2019, net of fees, were 4.17%, 5.25% and 8.18%, 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) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, 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, 2019, 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, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 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, 2019, the remaining commitments totaled approximately \$2.5 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 3.14%, -8.99%, -2.93%, and -4.15%, respectively, during the fiscal year ended August 31, 2019. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 10.54% during the fiscal year and absolute return investments yielded a return of 2.28%. The PSF(SBOE) real estate and private equity investments returned 7.22% and 11.93%, respectively. Risk parity assets produced a return of 10.89%, while real return assets yielded 0.71%. Emerging market debt produced a return of 10.40%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 4.17% for the fiscal year ended August 31, 2019, out-performing the benchmark index of 3.76% by approximately 41 basis points. All PSF(SLB) externally managed investments (including cash) returned 6.41% net of fees for the fiscal year ending August 31, 2019.

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, 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 10.0% for the fiscal year ending August 31, 2019. 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 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 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 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

## **2011 and 2019 Constitutional Amendments**

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 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, 2019, 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.

## **EMPLOYEES' BENEFIT PLANS**

### Retirement Plan

The District's employees participate in a public employee retirement plan with the State; the Plan is administered by the Teacher Retirement System of Texas ("TRS") (see Note J in Appendix D for a more complete description of the District's retirement plan).

### Health Care Coverage

During the year ended August 31, 2019, employees of the District were covered under the TRS Active Care health care plan. The District enrolled in TRS Active Care, the statewide health coverage program for public education employees, effective September 1, 2002 (see Note I in Appendix D for a more complete description of the District's health care coverage).

### Teacher Employee Recruitment and Retention Program

The District contributes to the Teacher Employee Recruitment and Retention Program Plan ("TERRP"). The TERRP is a defined contribution retirement plan and is completely funded by the employer (see Note L in Appendix D for a more complete description of the TERRP).

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.

## **RATINGS**

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the Texas Permanent School Fund Guarantee. The District's unenhanced underlying rating without regard to credit enhancement, including the Bonds, are "A1" from Moody's. (See "PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. An explanation of the significance of such rating may be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **LEGAL MATTERS**

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and the Underwriter, 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. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except under the subcaptions "Yield on Capital Appreciation Bonds," "Payment Record", "Permanent School Fund Guarantee" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS", "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS" (excluding the last sentence of the second paragraph thereof), "CONTINUING DISCLOSURE OF INFORMATION" (except for subcaption "Compliance with Prior Undertakings"), and "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", and such firm is of the opinion that the information relating to the bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Dallas, Texas, whose fee is contingent upon the sale and delivery of the Bonds.

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

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof "Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds (see "Appendix C – FORM OF LEGAL OPINION OF BOND COUNSEL").

In rendering its opinion, Bond Counsel to the District will rely upon (a) the District's federal tax certificate and the Sufficiency Certificate of SAMCO Capital Markets, Inc. relating to the refunding of the Refunded Bonds, (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order

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

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

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

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

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

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

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

### **Collateral Federal Income Tax Consequences**

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT

## WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

### Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### State, Local and Foreign Taxes

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

### Information Reporting and Backup Withholding

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

### Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Bonds have been designated, or deemed designated, as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**



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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions and public agencies of the State of Texas. 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, the Bonds must be rated no less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds. (See "RATINGS" herein). Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. 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.

## INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

### Legal Investments

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the Public Funds Investment Act (Chapter 2256, Government Code) as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, "corporate bonds" (described below) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms

of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

As a school district that qualifies as an "issuer" under Chapter 1371, Texas Government Code, as amended, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds.

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

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

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

### **Investment Policies**

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

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

### **Additional Provisions**

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

excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

### Current Investments

As of March 31, 2020 (unaudited), the District's investable funds were invested in the following categories of investments:

TexPool Investments	2,274,500.35	4.79%
Texas Class	24,559,590.61	51.77%
Texas Term	2,835,022.01	5.98%
General Fund Money Market Accounts	202,304.90	0.43%
General Fund Checking Account	<u>444,276.85</u>	<u>0.94%</u>
	\$ 35,768,698.47	75.39%
<u>Interest &amp; Sinking Fund Investments</u>		
Texas Class	\$ 10,373,178.23	21.86%
TexPool Investments	<u>184,164.63</u>	<u>0.39%</u>
	\$ 10,557,342.86	22.25%
<u>Food Service Funds Investments</u>		
Checking	\$ 99,854.47	0.21%
TexPool	<u>510,904.64</u>	<u>1.08%</u>
	\$ 610,759.11	1.29%
<u>Activity Funds Investments</u>		
Checking	\$ 936.06	0.00%
TexPool	<u>506,077.88</u>	<u>1.07%</u>
	\$ 507,013.94	1.07%
Total	<u>\$ 47,443,814.38</u>	<u>100.00%</u>

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

The Texas State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool ("TexPool"). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of the other persons who do not have a business relationship with TexPool. The advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAA by S&P. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

### FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. is employed as Financial Advisor (the "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 also 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.

### AUTHENTICITY OF FINANCIAL INFORMATION

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

## LITIGATION

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

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

## FUTURE DEBT ISSUANCE

The District does not anticipate the issuance of additional debt within the next twelve months.

## REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

## 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). For a description of the continuing disclosure undertaking of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

### Annual Reports

The District will provide certain updated financial information and operating data to the MSRB on an annual basis in an electronic format that is prescribed by the MSRB and available via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org). The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type disclosed in Tables 1 through 9 and 13 through 18 of Appendix A - "FINANCIAL INFORMATION OF THE ISSUER" and the District's audited financial statements, Appendix D. Some of the required financial information included in Appendix A, such as Tables 16, 17 and 18 will be incorporated by reference to the District's audited financial reports. The District will update and provide the information in the numbered tables within six (6) months after the end of each fiscal year and the financial statements within twelve (12) months after the end of each fiscal year as described below.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified below or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix D hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (ii) audited, if the District commissions an audit of such financial statements. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District's current fiscal year end is August 31. Accordingly, the District must provide updated information included in the referenced Tables by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described in the preceding paragraph. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial and operating data as set forth above.

### Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a

merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. 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". 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. The District will provide each notice described in this paragraph to the MSRB. For these purposes, any 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. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

### **Availability of Information from MSRB**

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

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

### **Compliance with Prior Undertakings**

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

## **UNDERWRITING**

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on page ii, less an Underwriter's Discount of \$41,792.97 plus accrued interest on the CIBS from the Dated Date to the Delivery Date. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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



**SCHEDULE I**  
**Schedule of Refunded Bonds**

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**SCHEDULE I  
SCHEDULE OF REFUNDED BONDS**

**ENNIS INDEPENDENT SCHOOL DISTRICT**

**Unlimited Tax Refunding Bonds, Series 2010**

<b>Premium Capital Appreciation Bonds</b>			
<b>Original Dated Date</b>	<b>Original Maturity (August 15)</b>	<b>Principal Amount Being Refunded <sup>(1)</sup></b>	<b>Maturity Amount Being Refunded</b>
August 1, 2010	2021	\$ 9,430.65	\$ 855,000.00
	2022	550,701.30	870,000.00
	2023	532,015.30	890,000.00
	2024	509,388.30	905,000.00
	2025	489,035.20	920,000.00
	2026	464,704.35	935,000.00
	2027	446,854.05	955,000.00
	2028	427,964.00	970,000.00
	2029	411,216.30	990,000.00
	2030	396,667.40	1,010,000.00
		4,237,976.85	9,300,000.00

<sup>(1)</sup> Redemption Date: August 15, 2020 at a price equal to the accreted value on the date of redemption.

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**SCHEDULE II**  
**Schedule of Accreted Values of Premium Capital Appreciation Bonds**

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

**Ennis Independent School District**

Unlimited Tax Refunding Bonds, Series 2020

\$4,237,957.40

**Accreted Value Table**

<b>DATE</b>	<b>8/15/2026 @ 1.14002%</b>	<b>8/15/2027 @ 1.29011%</b>	<b>8/15/2028 @ 1.40013%</b>	<b>8/15/2029 @ 1.50001%</b>	<b>8/15/2030 @ 1.62012%</b>
07/01/2020	4,663.85	4,562.40	4,464.30	4,362.80	4,246.55
08/15/2020	4,670.33	4,569.58	4,471.92	4,370.78	4,254.93
02/15/2021	4,696.96	4,599.05	4,503.23	4,403.56	4,289.40
08/15/2021	4,723.73	4,628.72	4,534.75	4,436.58	4,324.15
02/15/2022	4,750.65	4,658.58	4,566.50	4,469.86	4,359.18
08/15/2022	4,777.73	4,688.63	4,598.47	4,503.38	4,394.49
02/15/2023	4,804.97	4,718.87	4,630.66	4,537.16	4,430.08
08/15/2023	4,832.36	4,749.31	4,663.08	4,571.19	4,465.97
02/15/2024	4,859.90	4,779.95	4,695.72	4,605.47	4,502.15
08/15/2024	4,887.60	4,810.78	4,728.59	4,640.01	4,538.62
02/15/2025	4,915.46	4,841.81	4,761.70	4,674.81	4,575.38
08/15/2025	4,943.48	4,873.04	4,795.03	4,709.87	4,612.45
02/15/2026	4,971.66	4,904.48	4,828.60	4,745.20	4,649.81
08/15/2026	5,000.00	4,936.11	4,862.40	4,780.79	4,687.48
02/15/2027	-	4,967.95	4,896.44	4,816.64	4,725.45
08/15/2027	-	5,000.00	4,930.72	4,852.77	4,763.73
02/15/2028	-	-	4,965.24	4,889.17	4,802.32
08/15/2028	-	-	5,000.00	4,925.83	4,841.22
02/15/2029	-	-	-	4,962.78	4,880.43
08/15/2029	-	-	-	5,000.00	4,919.97
02/15/2030	-	-	-	-	4,959.82
08/15/2030	-	-	-	-	5,000.00

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## **APPENDIX A**

### **FINANCIAL INFORMATION OF THE ISSUER**

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)

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**FINANCIAL INFORMATION OF THE ISSUER**

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

**TABLE 1**

2019 Total Market Value (100% of Actual Excluding Totally Exempt Property)	\$ 3,106,477,913
Less Exemptions:	
Agricultural Productivity Loss	\$ 405,475,882
State Mandated Homestead Exemption	122,839,942
Over-65 and/or Disabled (State and Local Homestead Exemption)	43,561,987
Disabled and Deceased Veterans' Exemptions	11,595,490
Pollution Control	9,727,319
Cap Loss (10%)	49,706,818
Solar / Wind / Other	88,320
	<u>642,995,758</u>
2019 Net Taxable Assessed Valuation	\$ 2,463,482,155
Freeze Loss	<u>182,155,686</u>
2019 Freeze Adjusted Net Taxable Assessed Valuation	<u>\$ 2,281,326,469</u>

<sup>(a)</sup> See "AD VALOREM TAX PROCEDURES" and "THE PROPERTY TAX CODE AS APPLIED TO THE ENNIS INDEPENDENT SCHOOL DISTRICT" in the Official Statement for a description of the Issuer's taxation procedures.  
 Source: Ellis Central Appraisal District, Navarro County Appraisal District and the Issuer.

**GENERAL OBLIGATION BONDED DEBT PRINCIPAL**

**TABLE 2**

<b>General Obligation Debt Principal Outstanding (As of March 31, 2020):</b>	
Unlimited Tax Refunding Bonds, Series 2010	\$ 14,043.90 <sup>(a)</sup>
Unlimited Tax Refunding Bonds, Series 2013	3,755,000.00
Unlimited Tax Refunding Bonds, Series 2015	63,134,483.45
Unlimited Tax Refunding Bonds, Series 2016	9,747,102.20
Unlimited Tax Refunding Bonds, Series 2017	32,863,748.80
Unlimited Tax Refunding Bonds, Series 2017A	<u>1,561,328.00</u>
Total Gross General Obligation Debt Principal Outstanding	\$ 111,075,706.35
Unlimited Tax Refunding Bonds, Series 2020 (The Bonds)	\$ 4,237,957.40
Total Gross General Obligation Debt Principal outstanding following the Issuance of the Bonds	<u>\$ 115,313,663.75</u>
Less: Interest and Sinking Fund Balance Unaudited (As of March 31, 2020)	<u>\$ 13,016,734.00</u>
Net General Obligation Debt Principal Following the Issuance of the Bonds	<u>\$ 102,296,929.75</u>
Ratio of Gross General Obligation Debt Principal to 2019 Freeze Adjusted Net Taxable Assessed Valuation	5.05%
Ratio of Net General Obligation Debt Principal to 2019 Freeze Adjusted Net Taxable Assessed Valuation	4.48%
2019 Freeze Adjusted Net Taxable Assessed Valuation	\$ 2,281,326,469
Population: 1990 - 18,375; 2000 - 23,399; 2010 - 23,500; Current Estimate -	31,789
Per Capita 2019 Freeze Adjusted Net Taxable Assessed Valuation -	\$71,765
Per Capita Gross General Obligation Debt Principal -	\$3,627
Per Capita Net General Obligation Debt Principal -	\$3,218

<sup>(a)</sup> Excludes the Refunded Bonds.

NOTE: All capital appreciation bonds are shown at Original Principal Amount as opposed to Maturity Value or the accreted value of outstanding capital appreciation bonds.

**OTHER DEBT OBLIGATIONS OF THE DISTRICT**

**TABLE 3**

- None -

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

**TABLE 4**

Fiscal Year Ending 8-31	Current Total Debt Service	Less Refunded Debt Service	The Bonds			Total Combined Debt Service
			Principal	Interest	Total	
2020	\$ 10,593,750.00	\$ -	\$ -	\$ -	\$ -	\$ 10,593,750.00
2021	11,319,750.00	855,000.00	1,205,000.00	213,986.11	1,418,986.11	11,883,736.11
2022	12,249,750.00	870,000.00	980,000.00	117,250.00	1,097,250.00	12,477,000.00
2023	13,512,000.00	890,000.00	415,000.00	68,250.00	483,250.00	13,105,250.00
2024	14,367,000.00	905,000.00	250,000.00	47,500.00	297,500.00	13,759,500.00
2025	14,500,750.00	920,000.00	700,000.00	35,000.00	735,000.00	14,315,750.00
2026	14,496,000.00	935,000.00	195,532.70	549,467.30	745,000.00	14,306,000.00
2027	14,522,000.00	955,000.00	161,369.10	603,630.90	765,000.00	14,332,000.00
2028	14,642,500.00	970,000.00	132,241.20	647,758.80	780,000.00	14,452,500.00
2029	15,612,750.00	990,000.00	109,008.00	690,992.00	800,000.00	15,422,750.00
2030	16,159,500.00	1,010,000.00	89,806.40	730,193.60	820,000.00	15,969,500.00
2031	16,371,250.00	-	-	-	-	16,371,250.00
2032	16,367,750.00	-	-	-	-	16,367,750.00
2033	16,366,750.00	-	-	-	-	16,366,750.00
2034	16,360,750.00	-	-	-	-	16,360,750.00
2035	16,349,750.00	-	-	-	-	16,349,750.00
2036	16,377,250.00	-	-	-	-	16,377,250.00
2037	16,380,000.00	-	-	-	-	16,380,000.00
2038	12,768,000.00	-	-	-	-	12,768,000.00
2039	8,660,000.00	-	-	-	-	8,660,000.00
2040	8,660,000.00	-	-	-	-	8,660,000.00
	<u>\$ 296,637,250.00</u>	<u>\$ 9,300,000.00</u>	<u>\$ 4,237,957.40</u>	<u>\$ 3,704,028.71</u>	<u>\$ 7,941,986.11</u>	<u>\$ 295,279,236.11</u>

**TAX ADEQUACY**

**TABLE 5**

2019 Net Taxable Assessed Valuation	\$ 2,281,326,469
Estimated Maximum Annual Debt Service Requirements, Fiscal Year 2037	\$ 16,380,000
Indicated Interest and Sinking Fund Tax Rate at 98.9% Collections to Produce Maximum Debt Service	\$ 0.7260

**FUND BALANCES**

**TABLE 6**

(As of March 31, 2020, unaudited)

General Operating Fund	\$ 31,722,523
Special Revenue Funds	1,955,840
Debt Service Fund	13,016,734
Capital Projects Fund	1,148,721
<b>Total</b>	<b>\$ 47,843,818</b>

**PRINCIPAL REPAYMENT SCHEDULE**

**TABLE 7**

Fiscal Year Ending 31-Aug	Principal Repayment Schedule				Obligations Remaining Outstanding End of Year	Percent (%) of Principal Retired
	Currently Outstanding <sup>(a)</sup>	Less Refunded Bonds	The Bonds <sup>(a)</sup>	Total <sup>(a)</sup>		
2020	\$ 5,814,043.90	\$ -	\$ -	\$ 5,814,043.90	\$ 109,499,619.85	5.04%
2021	6,809,430.65	9,430.65	1,205,000.00	8,005,000.00	101,494,619.85	11.98%
2022	8,605,701.30	550,701.30	980,000.00	9,035,000.00	92,459,619.85	19.82%
2023	10,232,015.30	532,015.30	415,000.00	10,115,000.00	82,344,619.85	28.59%
2024	11,534,388.30	509,388.30	250,000.00	11,275,000.00	71,069,619.85	38.37%
2025	12,184,035.20	489,035.20	700,000.00	12,395,000.00	58,674,619.85	49.12%
2026	6,189,828.35	464,704.35	195,532.70	5,920,656.70	52,753,963.15	54.25%
2027	6,098,404.90	446,854.05	161,369.10	5,812,919.95	46,941,043.20	59.29%
2028	6,135,851.65	427,964.00	132,241.20	5,840,128.85	41,100,914.35	64.36%
2029	7,066,718.00	411,216.30	109,008.00	6,764,509.70	34,336,404.65	70.22%
2030	3,611,466.60	396,667.40	89,806.40	3,304,605.60	31,031,799.05	73.09%
2031	2,955,851.60	-	-	2,955,851.60	28,075,947.45	75.65%
2032	2,679,520.30	-	-	2,679,520.30	25,396,427.15	77.98%
2033	2,481,949.50	-	-	2,481,949.50	22,914,477.65	80.13%
2034	2,236,249.40	-	-	2,236,249.40	20,678,228.25	82.07%
2035	2,863,462.90	-	-	2,863,462.90	17,814,765.35	84.55%
2036	3,278,436.15	-	-	3,278,436.15	14,536,329.20	87.39%
2037	3,220,001.20	-	-	3,220,001.20	11,316,328.00	90.19%
2038	7,561,328.00	-	-	7,561,328.00	3,755,000.00	96.74%
2039	1,930,000.00	-	-	1,930,000.00	1,825,000.00	98.42%
2040	1,825,000.00	-	-	1,825,000.00	(0.00)	100.00%
	<u>\$ 115,313,683.20</u>	<u>\$ 4,237,976.85</u>	<u>\$ 4,237,957.40</u>	<u>\$ 115,313,663.75</u>		

<sup>(a)</sup> All capital appreciation bonds are shown at their Original Principal Amount.

**PROPERTY TAX RATES AND COLLECTIONS**

**TABLE 8**

<u>Tax Year</u>	<u>Freeze Adjusted Net Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>% Collections<sup>(a)</sup></u>		<u>Year Ended</u>
				<u>Current</u>	<u>Total</u>	
2008	\$ 1,696,856,073	\$ 1.4800	\$ 25,082,598	96.80%	98.52%	8/31/2009
2009	1,699,584,612	1.5100	25,722,890	97.50%	100.03%	8/31/2010
2010	1,688,095,306	1.5400	25,963,699	97.83%	100.54%	8/31/2011
2011	1,719,408,786	1.5400	26,479,071	98.01%	100.40%	8/31/2012
2012	1,648,427,251	1.5400	26,557,627	98.38%	100.82%	8/31/2013
2013	1,675,073,680	1.5400	27,031,960	98.46%	100.85%	8/31/2014
2014	1,659,639,056	1.5400	26,855,505	98.72%	99.58%	8/31/2015
2015	1,728,760,962	1.5400	27,795,502	98.52%	100.16%	8/31/2016
2016	1,793,690,489	1.5400	28,912,323	98.76%	99.64%	8/31/2017
2017	1,860,872,395	1.5358	29,981,686	98.23%	99.49%	8/31/2018
2018	1,947,551,019	1.5400	31,505,958	98.40%	99.54%	8/31/2019
2019	2,281,326,469	1.4884	-	-	-	8/31/2020

<sup>(a)</sup> Collection percentages do not include penalties and interest.

Source: Texas Comptroller of Public Accounts, the District's Audited Financial Statements, additional information supplied by the District, the Ellis Appraisal District and the Navarro Central Appraisal District.

**TAX RATE DISTRIBUTION**

**TABLE 9**

	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>
Local Maintenance	\$1.06840 <sup>(b)</sup> *	\$1.17000 <sup>(a)</sup>	\$1.04000	\$1.04000	\$1.04000
I & S Fund	<u>0.42000</u>	<u>0.37000</u>	<u>0.49580</u>	<u>0.50000</u>	<u>0.50000</u>
TOTAL	\$1.48840	\$1.54000	\$1.53580	\$1.54000	\$1.54000

Source: Ellis County Appraisal District, Navarro County Appraisal District and the Issuer.

\* The decline in the Issuer's maintenance tax is a function of House Bill 3 adopted by the Texas Legislation in June 2019.

<sup>(a)</sup> The levy of a \$1.17 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on September 8, 2018. Prior to such ratification, the District was limited to a \$1.04 tax rate for maintenance and operations.

<sup>(b)</sup> Pursuant to House Bill 3 that was enacted during the 2019 legislative session, the District's maintenance and operations tax rate is required to be compressed from \$1.17 to \$1.0684 for year 2019/20 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" in the Official Statement).

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES**

**TABLE 10**

<u>Governmental Subdivision</u>	<u>2019 Net Taxable Assessed Valuation</u>	<u>2019 Tax Rate</u>
City of Bardwell	\$ 15,585,303	\$ 0.314000
Ellis County	17,592,041,486	0.330000
City of Ennis	1,952,690,830	0.725000
Navarro County	4,014,465,368	0.627000

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas.

Note: Assessed valuation figures are Certified Values.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

**TABLE 11**

(As of March 31, 2020)

<u>Taxing Body</u>	<u>Gross Debt</u>	<u>%</u>	<u>Amount</u>
	<u>Principal</u>	<u>Overlapping</u>	<u>Overlapping</u>
Ellis County	\$ 38,300,000	14.08%	5,392,640
Ennis, City of	67,915,000	99.47%	67,555,051
Navarro County	7,007,000	0.38%	<u>26,627</u>
Total Gross Overlapping Debt Principal			\$ 72,974,317
Ennis Independent School District	\$ 115,313,664 <sup>(a)</sup>	100.00%	<u>115,313,664</u> <sup>(a)</sup>
Total Direct and Overlapping Debt Principal			<u>\$ 188,287,981</u> <sup>(a)</sup>
Ratio of Direct and Overlapping Debt Principal to 2019 Freeze Adjusted Net Taxable Assessed Valuation			8.25% <sup>(a)</sup>
Ratio of Direct and Overlapping Debt Principal to 2019 Total Market Value			6.06% <sup>(a)</sup>
Per Capita Direct and Overlapping Debt Principal			\$5,923.05 <sup>(a)</sup>

<sup>(a)</sup> Includes the Bonds and excludes the Refunded Bonds.

Source: Municipal Advisory Council of Texas

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES**

**TABLE 12**

	<u>Date Authorized</u>
City of Bardwell	None
Ellis County	None
City of Ennis	None
Navarro County	None
Ennis ISD	None

Source: Municipal Advisory Council of Texas

**PRINCIPAL TAXPAYERS**

**TABLE 13**

<u>Name</u>	<u>Type of Property</u>	<u>2019 Taxable Valuation</u>	<u>% of 2019 Freeze Adjust Net Taxable Valuation</u>
CVS Texas Distributing	Real / BPP / Warehouse Distribution	\$ 107,775,900	4.72%
Ennis Power Company	Real / BPP / Infrastructure-Power Generation	95,744,700	4.20%
Sterilite Corporation	Real / BPP / Plastic Products Manufacturing	64,673,060	2.83%
Elk Roofing Products	Real / BPP / Roofing Products Manufacturing	52,972,550	2.32%
Leggett Partners LP	Real/ BPP/ Furniture Components	51,063,830	2.24%
Syngenta Crop Protection	Real/BPP/Agri Chemicals	45,774,320	2.01%
JTEKT Automotive Texas	Real/ BPP/ Automotive Parts	38,829,950	1.70%
Oncor Electric Delivery Company	Real/ BPP/ Electric Utility Delivery	32,663,640	1.43%
Spyglass Apartments of Ennis	Real / Commercial / Apartment Complex	24,147,130	1.06%
Ennis Tx 287 LLC	Real / Commercial	<u>22,500,000</u>	<u>0.99%</u>
<b>Total</b>		<b>\$ 536,145,080</b>	<b>23.50%</b>

Based on a 2019 Freeze Adjusted Net Taxable Assessed Valuation of \$ 2,281,326,469

Source: Ellis and Navarro County Appraisal Districts

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 14**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Real, Residential Single Family	\$ 860,397,608	\$ 736,096,083	\$ 668,640,039	\$ 608,450,441	\$ 579,281,273
Real, Multifamily	92,861,148	51,769,971	46,487,020	43,836,700	43,120,720
Real, Vacant Lots/Tracts	31,581,810	24,467,710	22,714,280	22,778,227	22,884,488
Real, Acreage (Land Only)	440,410,125	377,976,312	356,421,564	301,408,449	302,464,266
Real, Farm and Ranch Improvements	259,948,299	233,136,946	197,938,905	184,640,575	167,575,802
Real, Commercial	316,634,335	263,790,766	253,292,825	230,724,235	222,636,848
Real, Industrial	267,122,168	232,560,369	233,927,809	226,738,100	231,204,480
Real, Minerals Oil and Gas	32,793	7,770	11,736	11,041	38,435
Real and Tangible, Personal Utilities	116,565,867	98,108,982	97,856,644	93,655,080	97,723,820
Tangible Personal, Commercial	234,596,710	218,613,155	226,337,435	208,938,012	189,304,066
Tangible Personal, Industrial	445,529,743	395,711,220	379,580,300	425,887,208	403,851,211
Tangible Personal, Mobile Homes	8,389,610	8,469,150	8,646,168	8,659,920	8,501,420
Inventory, Residential / Special	32,407,697	12,137,260	10,844,417	11,509,600	11,012,780
<b>Total Market Value</b>	<b>\$ 3,106,477,913</b>	<b>\$ 2,652,845,694</b>	<b>\$ 2,502,699,142</b>	<b>\$ 2,367,237,588</b>	<b>\$ 2,279,599,609</b>
<b>Less Exemptions:</b>					
Agricultural Productivity Loss	\$ 405,475,882	\$ 351,849,661	\$ 326,692,481	\$ 278,773,562	\$ 273,829,084
Homestead Exemption	122,839,942	119,651,679	118,770,546	118,985,645	120,394,624
State and Local, Over-65 or Disabled Homestead Exemption	43,561,987	41,114,099	39,301,022	38,198,642	37,144,952
Disabled and Deceased Veterans'	11,595,490	9,351,633	6,100,890	4,928,188	4,108,229
Pollution Control	9,727,319	9,400,927	13,470,942	15,910,684	17,789,087
Cap Loss (10%)	49,706,818	29,201,902	13,920,827	2,037,018	1,850,196
Solar / Wind / Other	88,320	83,460	81,346	73,940	73,660
<b>Total Exemptions</b>	<b>\$ 642,995,758</b>	<b>\$ 560,653,361</b>	<b>\$ 518,338,054</b>	<b>\$ 458,907,679</b>	<b>\$ 455,189,832</b>
<b>Net Certified Taxable Value</b>	<b>\$ 2,463,482,155</b>	<b>\$ 2,092,192,333</b>	<b>\$ 1,984,361,088</b>	<b>\$ 1,908,329,909</b>	<b>\$ 1,824,409,777</b>
Freeze Loss (with local optional deducted)	182,155,686	144,641,314	123,488,693	114,639,420	95,648,815
<b>Freeze Adjusted Net Taxable Valuation</b>	<b>\$ 2,281,326,469</b>	<b>\$ 1,947,551,019</b>	<b>\$ 1,860,872,395</b>	<b>\$ 1,793,690,489</b>	<b>\$ 1,728,760,962</b>

Note: Figures shown are Certified Valuations. Assessed Valuations may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

Source: Ellis County Appraisal District, Navarro County Appraisal District and Comptroller of Public Accounts.

**PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Real, Residential	27.70%	27.75%	26.72%	25.70%	25.41%
Real, Multifamily	2.99%	1.95%	1.86%	1.85%	1.89%
Real, Vacant Lots/Tracts	1.02%	0.92%	0.91%	0.96%	1.00%
Real, Acreage (Land Only)	14.18%	14.25%	14.24%	12.73%	13.27%
Real, Farm and Ranch Improvements	8.37%	8.79%	7.91%	7.80%	7.35%
Real, Commercial	10.19%	9.94%	10.12%	9.75%	9.77%
Real, Industrial	8.60%	8.77%	9.35%	9.58%	10.14%
Real, Minerals Oil and Gas	0.00%	0.00%	0.00%	0.00%	0.00%
Real and Tangible, Personal Utilities	3.75%	3.70%	3.91%	3.96%	4.29%
Tangible Personal, Commercial	7.55%	8.24%	9.04%	8.83%	8.30%
Tangible Personal, Industrial	14.34%	14.92%	15.17%	17.99%	17.72%
Tangible Personal, Mobile Homes	0.27%	0.32%	0.35%	0.37%	0.37%
Personal Property, Inventory	1.04%	0.46%	0.43%	0.49%	0.48%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Texas Comptroller of Public Accounts

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES  
AND ANALYSIS OF CHANGES IN FUND BALANCES**

**TABLE 16**

	Fiscal Year Ended 8-31				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>					
Local, and Intermediate Sources	\$25,044,055	\$21,201,421	\$20,457,329	\$19,450,783	\$19,134,671
State Program Revenues	26,338,767	25,701,962	25,337,603	26,366,896	24,457,311
Federal Program Revenues	<u>958,987</u>	<u>776,225</u>	<u>1,134,013</u>	<u>1,050,904</u>	<u>335,108</u>
<b>Total Revenues</b>	<b>\$52,341,809</b>	<b>\$47,679,608</b>	<b>\$46,928,945</b>	<b>\$46,868,583</b>	<b>\$43,927,090</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Instruction	29,207,554	27,966,133	26,864,536	26,461,675	26,591,903
Instructional Resources & Media	851,260	788,043	837,649	840,111	830,635
Curriculum & Instructional Staff Dev.	500,114	472,110	527,095	602,785	615,054
Instructional Leadership	817,862	1,041,309	770,521	507,763	613,517
School Leadership	2,534,705	2,454,315	2,486,621	2,394,240	2,371,280
Guidance, Counseling & Evaluation Services	1,411,725	1,342,613	1,282,321	1,317,164	1,464,923
Social Work Services	36,237	37,967	40,626	37,356	40,720
Health Services	612,895	658,533	603,116	589,658	600,955
Student (Pupil) Transportation	1,650,262	1,613,820	1,758,924	1,781,713	1,512,600
Extracurricular Activities	1,116,734	1,158,506	1,256,210	1,166,214	1,150,970
General Administration	1,828,421	1,722,188	1,703,230	1,603,990	1,505,936
Facilities Maintenance & Operations	5,197,985	5,397,756	5,116,362	4,998,506	4,892,828
Security and Monitoring Services	523,877	379,321	286,795	283,701	299,160
Data Processing Services	900,099	613,767	758,542	598,797	533,135
Community Services	-	2,668	-	-	-
Capital Outlay	<u>170,166</u>	<u>127,949</u>	<u>117,936</u>	-	-
<b>Total Expenditures</b>	<b>\$ 47,359,896</b>	<b>\$ 45,776,998</b>	<b>\$ 44,410,484</b>	<b>\$ 43,183,673</b>	<b>\$ 43,023,616</b>
<b>Excess (Deficiency) Revenues Over</b>					
(Under) Expenditures	\$ 4,981,913	\$ 1,902,610	\$ 2,518,461	\$ 3,684,910	\$ 903,474
Other Resources/Extraordinary Item Resource	-	-	-	-	-
Other (Uses)	<u>(5,172,916)</u>	<u>180,547</u>	<u>(3,782,022)</u>	-	<u>(3,000,000)</u>
<b>Excess (Deficiency) Revenues and Other</b>					
Resources Over (Under) Expenditures and Other Uses	\$ (191,003)	\$ 2,083,157	\$ (1,263,561)	\$ 3,684,910	\$ (2,096,526)
<b>Fund Balance - Beginning of Year</b>					
	<u>19,938,897</u>	<u>17,855,740</u>	<u>19,119,301</u>	<u>15,434,391</u>	<u>17,530,917</u>
<b>Fund Balance - End of Year <sup>(a)</sup></b>					
	<u>\$ 19,747,894</u>	<u>\$ 19,938,897</u>	<u>\$ 17,855,740</u>	<u>\$ 19,119,301</u>	<u>\$ 15,434,391</u>

Source: The District's Audited Financial Reports.

<sup>(a)</sup> The District does not anticipate a reduction in the General Fund balance for fiscal year ending August 31, 2020.

## CHANGE IN NET ASSETS

TABLE 17

	For Fiscal Year Ended August 31				
	2019	2018	2017	2016	2015
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Grants and Contributions	7,735,830	(28,623)	9,263,663	8,174,369	7,818,026
<b>General Revenues:</b>					
Maintenance and Operations Taxes	24,068,068	20,031,172	19,551,904	18,158,726	18,184,239
Debt Service Taxes	7,343,090	9,706,829	9,377,088	8,962,603	8,712,311
Grants/Contributions (Not Restricted)	30,557,806	26,345,856	25,064,976	26,290,924	23,415,570
Investment Earnings	835,889	559,337	290,753	153,072	192,760
Miscellaneous	765,707	1,622,734	855,179	822,908	1,390,746
<b>Total Revenue</b>	<b>\$ 71,306,390</b>	<b>\$ 58,237,305</b>	<b>\$ 64,403,563</b>	<b>\$ 62,562,602</b>	<b>\$ 59,713,652</b>
<b>Expenses:</b>					
Instruction	\$ 37,951,109	\$ 24,435,306	\$ 32,862,995	\$ 32,140,814	\$ 31,910,935
Instructional Resources & Media Services	913,872	600,494	851,488	840,111	830,661
Curriculum & Instructional Staff Development	635,710	413,483	540,637	587,299	676,469
Instructional Leadership	2,011,261	1,066,558	1,285,109	634,295	633,643
School Leadership	2,952,200	1,781,461	2,662,353	2,521,661	2,499,469
Guidance, Counseling & Evaluation Services	2,009,969	1,252,838	1,672,663	1,595,490	1,711,079
Social Work Services	36,237	37,967	40,626	37,356	40,720
Health Services	675,481	470,984	619,951	592,654	610,752
Student (Pupil) Transportation	1,944,356	1,400,409	1,536,447	1,591,535	1,434,837
Food Services	3,811,670	3,601,940	4,046,573	3,891,767	3,368,227
Co-curricular/Extracurricular Activities	1,990,607	1,697,228	2,077,719	1,931,574	1,947,381
General Administration	2,065,170	1,499,694	1,882,369	1,797,859	1,744,962
Plant Maintenance and Operations	5,751,353	5,520,599	5,515,166	5,088,155	4,717,656
Security and Monitoring Services	567,790	326,002	293,380	283,701	273,801
Data Processing Services	981,359	426,218	590,451	574,904	533,135
Community Services	8,586	34,250	41,450	39,938	38,316
Debt Service - Interest on Long-Term Debt	8,332,823	8,922,401	7,927,822	7,601,075	5,703,660
Debt Service - Bond Issuance Cost and Fees	3,453	98,499	215,994	153,754	384,382
Facilities Acquisition and Construction	-	323,952	-	-	-
Payments to Fiscal Agent/Member District of SSA	-	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 72,643,006</b>	<b>\$ 53,910,283</b>	<b>\$ 64,663,193</b>	<b>\$ 61,903,942</b>	<b>\$ 59,060,085</b>
<b>Change in Net Assets</b>	<b>(1,336,616)</b>	<b>4,327,022</b>	<b>(259,630)</b>	<b>658,660</b>	<b>653,567</b>
Transfers	-	-	-	-	-
<b>Beginning Net Assets</b>	<b>(48,249,758)</b>	<b>(23,647,537)</b>	<b>(23,387,907)</b>	<b>(24,046,567)</b>	<b>(18,394,680)</b>
Effect of Period Adjustment/Change in Accounting Principle	-	(28,929,243) <sup>(a)</sup>	-	-	(6,305,454)
<b>Ending Net Assets</b>	<b>\$ (49,586,374)<sup>(b)</sup></b>	<b>\$ (48,249,758)<sup>(b)</sup></b>	<b>\$ (23,647,537)<sup>(b)</sup></b>	<b>\$ (23,387,907)<sup>(b)</sup></b>	<b>\$ (24,046,567)</b>

This information taken from the District's Audited Annual Financial Reports (Management Discussion) represents government-wide financial information provided in accordance with GASB 34, which the District adopted beginning with the 2002 fiscal year.

<sup>(a)</sup> As a result of the implementation of GASB Statement No. 68, an adjustment was made to record the District's proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas.

<sup>(b)</sup> The negative balance in net assets invested in capital assets net of related debt results from the fact that the book balance of the capital assets (purchase costs less accumulated depreciation to date) is less than the book balance of capital debt (outstanding principal plus accreted interest to date).

## DEBT SERVICE COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 18

	Fiscal Year Ended August 31				
	2019	2018	2017	2016	2015
Fund Balance - Beginning of Year	\$ 3,054,078	\$ 2,446,118	\$ 2,069,327	\$ 1,655,611	\$ 1,599,353
Total Revenues	7,966,803	10,049,232	9,872,610	9,770,756	9,323,108
Total Expenditures	9,999,003	9,536,320	9,715,994	9,437,471	9,648,307
Excess (Deficiency) Revenues Over (Under Expenditures)	\$ (2,032,200)	\$ 512,912	\$ 156,616	\$ 333,285	\$ (325,199)
Other Resources	2,031,821	95,048	220,175	80,431	381,457
Other Uses	-	-	-	-	-
Fund Balance - End of Year	<b>\$ 3,053,699</b>	<b>\$ 3,054,078</b>	<b>\$ 2,446,118</b>	<b>\$ 2,069,327</b>	<b>\$ 1,655,611</b>

Source: District's Audited Annual Financial Reports.



**APPENDIX B**

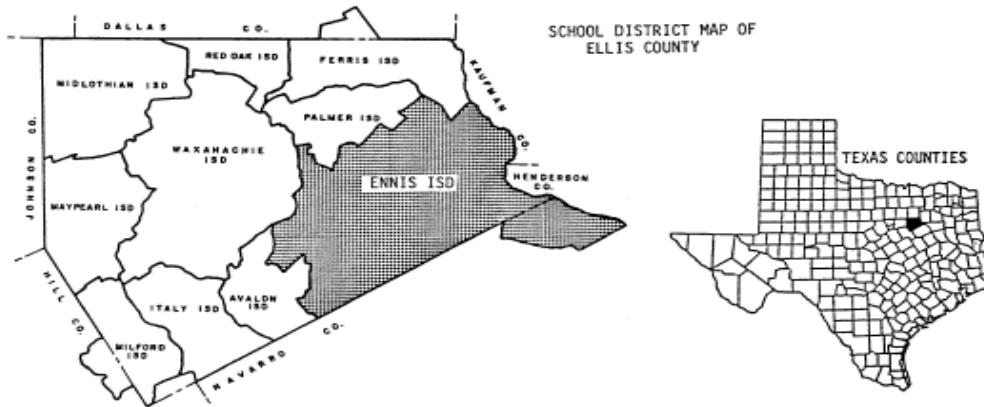
**GENERAL INFORMATION REGARDING THE ENNIS INDEPENDENT SCHOOL DISTRICT  
THE CITY OF ENNIS AND ELLIS COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING  
ENNIS INDEPENDENT SCHOOL DISTRICT**

**General and Economic Information**

Ennis Independent School District (the "District") is located primarily in Ellis County with a portion extending into Navarro County with an area of approximately 258.94 square miles. The District includes the City of Ennis (the "City"), which is a primary manufacturing center located 34 miles south of downtown Dallas on Interstate Highway 45. The District's economy is made up of agriculture and manufacturing. The District's current population estimate is 31,789.



**Leading Employers in the District**

<u>Employer</u>	<u>Principal Line of Business/Product</u>	<u>Estimated Number of Employees</u>
Sterilite Corporation	Plastic Storage Containers	750
Ennis Inc.	Business Forms Manufacturing	359
Ennis Extruded Products	Vinyl Siding	330
Teletech	Health Care Call Center	400
GAF-Elk Corporation of Texas	Roofing Products	300
JTEKT, Inc.	Automotive Steering Systems Manufacturing	250
Wal Mart	Retail Store	240
CVS Pharmacy Distribution	Retail Pharmacy Distribution	225
Schirm USA, Inc.	Chemical Distribution Warehousing	200
Leggett & Platt, Inc.	Bed & Furniture Inner Springs	315
Lone Star Railroad Contractors	Railroad Construction	60

**Scholastic Information**

The District offers a fully accredited and comprehensive educational program. The District is accredited by the Accreditation Division of the Texas Education Agency on a K-12 basis. All campuses have computer labs, Internet access and cafeteria service. The average number of years of teaching experience for classroom teachers is 13 years, and the average number of years of experience with the District is 9 years. Approximately 17% of current classroom teachers hold a master’s degree and 100% of administrators hold a masters degree.

The following list shows some of the supplemental programs the District offers in addition to its core curriculum:

- Remedial classes at all levels
- Special education (birth - 22 years)
- Bilingual Education
- Alternative Education Programs- Horizons
- English as a Second Language (ESL)
- Gifted/Talented programs (K-12)
- Advance Placement / SAT/ACT Prep Courses
- Teen Parenting Courses
- Dual Credit Program
- AVID
- Pre-School Program for Children with Disabilities
- Full Day Pre-K and Kindergarten
- Scottish Rite Language Therapy Program
- WiFi connectivity at all campuses
- Breakfast in the Classroom (K-8)
- Ennis ISD Police Force
- Community Partnerships
- Parent Portal
- GED and ESL night classes for Adults
- Texas immunizations for children site
- Wide range of vocational / career and technical courses
- Variety of Fine Arts (K-12)
- Distance Learning Programs
- Summer School Programs / Summer Lunch Program
- Community Adult Education – Practical Parenting
- Tutorials
- Reading Specialist on each campus
- Title Programs
- Highly Competitive in Academic & Athletic UIL Activities
- SOAR – credit recovery for EJHS and EHS students
- Paid tuition Pre-K Program
- Campus Parent Meetings with Principals
- Smart board Technology in all classrooms
- iPad & Chrome book initiatives
- Lions’ Clubs - Weekend Backpack Food Program
- Literacy leaders (1-6)
- Google for Education District
- School Messenger
- Wellness program for Staff
- Mentoring Program

The District’s commitment to educating all students to their highest level of academic ability is demonstrated by the low pupil/teacher ratio at all schools, the variety and high quality of the District’s special programs and the encouraged involvement of the entire community in the education process, including Parent/Teachers Organization, Dads’ Supporting Education Organization, Senior Citizens’ Activity Program and Volunteers in the Public Schools Program. The District also has a wide range of extra / co-curricular activities and student clubs and organizations.

**Plant Facilities**

School facilities include two early childhood centers, four elementary schools, one Disciplinary Alternative Education Program (DAEP) center, two intermediate schools, one junior high school and one senior high school with a career center. Other District facilities include an administration building, a Technology/Maintenance building and transportation facilities.

A description of the present school facilities is as follows:

<u>Name</u>	<u>Grades Provided</u>	<u>Planned Capacity</u>	<u>Current Enrollment</u> <sup>(a)</sup>	<u>Year Built</u>
Ennis High School	9-12	2,765	1678	1981
Ennis Junior High School	7-8	1,200	896	1916
Dorie Miller Intermediate School	4-6	800	649	2002
Jack Lummus Intermediate School	4-6	800	615	2009
Stephen F. Austin Elementary	1-3	420	271	1963
James Bowie Elementary	1-3	480	369	1987
Sam Houston Elementary	1-3	400	294	1963
William B. Travis Elementary	1-3	520	280	1955
David S. Crockett Early Childhood Center	PK-K	620	433	2002
George W. Carver Early Childhood Center	PK-K	<u>620</u>	<u>395</u>	2009
<b>Totals</b>		<b><u>8,625</u></b>	<b><u>5,880</u></b>	

<sup>(a)</sup> Current Enrollment is as of February 28, 2020.

## District Employment

The following employees of the District are covered by the Teacher Retirement System:

Teachers	382
Administrators	20
Teachers' Aides	135
Non-Teaching Certified Professional Staff (nurses, counselors, diagnosticians)	76
Support Staff (secretaries, clerks)	88
Auxiliary Staff (food service & maintenance)	<u>12</u>
Total Personnel	<u>713</u>

## Total Enrollment Statistics

<u>School Year</u>	<u>Enrollment</u>
2019-20*	5,880
2018-19	5,818
2017-18	5,797
2016-17	5,741
2015-16	5,705
2014-15	5,789
2013-14	5,691
2012-13	5,782
2011-12	5,725
2010-11	5,750

\* Current figures are as of February 28, 2020

Note: All other school year figures are as of May 31 of each year noted.

**GENERAL INFORMATION REGARDING  
THE CITY OF ENNIS AND ELLIS COUNTY, TEXAS**

The City of Ennis, Texas (the “City”) is a commercial and industrial center located in north central Texas’s Ellis County. The City has always shared the good fortune of proximity to the Dallas-Fort Worth Metroplex (DFW) and its location at the convergence of major transportation routes. The combined Dallas-Fort Worth-Arlington economy is the 6th largest economy in the United States (HS Global Insight).

Ennis is strategically located at the intersection of Interstate 45 and State highway 287. Downtown Dallas is 35 miles north and downtown Fort Worth is 57 miles to the northwest. Traffic from these cities and related suburbs traverse the two highways to Houston, 205 miles to the south.

The genesis of Ennis was as a railway hub and rail transportation continues to be a major asset to the City's economy. From Ennis, rail access extends in all four major directions and accentuates the attractiveness of the City to business dependent upon multiple forms of transportation.

The City's economy is based on manufacturing and agriculture. Approximately 55 manufacturing plants are located in the City producing goods including, but not limited to, ladies' clothing, business forms, auto parts, vinyl siding, fiberglass products, electric alarms and bedsprings.

Encompassing an area of 939.90 square miles, the central Texas county of Ellis (the “County”) is a component of the Dallas-Fort Worth Consolidated Metropolitan Statistical Area (CMSA) and is traversed by Interstate Highways 35E and 45, United States Highways 77 and 287, State Highways 34 and 342 and 13 farm-to-market roads. The City of Waxahachie serves as the County seat. Additional cities within the County include Midlothian, Ferris, Italy, Palmer and Red Oak. Major industries within the County include warehousing, steel production, government, distribution center and cement production. Major minerals include sand, gravel, gas and cement, and agricultural products include nursery crops, hay, cotton, corn and cattle.

**Population Trends**

<u>Year</u>	<u>City of Ennis</u>	<u>Ellis County</u>
Current Estimate	19,923	173,636
2010 Census	18,513	149,610
2000 Census	16,045	111,360
1990 Census	13,883	85,167
1980 Census	12,100	59,743
1970 Census	11,046	46,638
1960 Census	9,347	43,395

Sources: U.S. Census Bureau Website.

**Labor Force Statistics**

	<u>Ellis County</u>		<u>Dallas-Ft Worth-Arlington MSA</u>		<u>State of Texas</u>	
	<u>March 2020</u>	<u>March 2019</u>	<u>March 2020</u>	<u>March 2019</u>	<u>March 2020</u>	<u>March 2019</u>
Civilian Labor Force	93,057	91,693	3,972,331	3,931,453	14,075,576	13,976,212
Total Employed	89,187	88,773	3,801,590	3,800,975	13,409,275	13,486,329
Total Unemployed	3,870	2,920	170,741	130,478	666,301	489,883
% Unemployed	4.2%	3.2%	4.3%	3.3%	4.7%	3.5%

Source: Texas Workforce Commission, Labor Market Information Department.

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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**ENNIS INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,237,957.40**

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AS BOND COUNSEL FOR THE ISSUER (the “Issuer”) of the Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which are payable, bear interest and are subject to further provisions, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer and other documents authorizing and relating to the issuance of said Bonds, including the executed Bonds (Bond Numbers TR-1 and TCAB-1).

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith, the report or certificate verifying the sufficiency of the amounts deposited in the escrow fund to pay the principal of and interest on the refunded bonds and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



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

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 a result and are not binding on the Internal Revenue Service (the "Service"). Rather, our opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, might result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

**APPENDIX D**

**EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED AUGUST 31, 2019**

(Independent Auditor's Report, Management's Discussion and Analysis, General Financial Statements and Notes to the Financial Statements - not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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**ENNIS INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE**

**YEAR ENDED AUGUST 31, 2019**

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ENNIS INDEPENDENT SCHOOL DISTRICT  
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CERTIFICATE OF BOARD

ENNIS INDEPENDENT SCHOOL DISTRICT  
Name of School District

ELLIS  
County

070-903  
County-District Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved ✓ disapproved \_\_\_\_\_ for the year ended August 31, 2019 at a meeting of the Board of Trustees of such school district on the 14<sup>th</sup> day of January, 2020.

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

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

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



FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Ennis Independent School District  
Ennis, TX

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ennis 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.

### Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 auditors consider 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 Ennis Independent School District as of August 31, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity 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 (pages iv through viii) and budgetary comparison information (pages 40, 55 and 56) and Pension other Post-Benefit Employee Benefits information (pages 40-46) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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* 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 and individual nonmajor fund financial statements 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Ennis Independent School District's internal control over financial reporting and compliance.

JOO, THOMAS, SMITH & COMPANY, P.C.

Dallas, Texas  
January 10, 2020

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

In this section of the Annual Financial and Compliance Report, we, the managers of Ennis Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2019. Please read it in conjunction with our transmittal letter, the independent auditors' report, and the District's Basic Financial Statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (Exhibits A-1 and B-1). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (Exhibits C-1 and C-3) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements (for Fiduciary funds) provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled Required TEA Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### Reporting the District as a Whole

The analysis of the District's overall financial position and operations is illustrated on Exhibit A-1 on the Statement of Net Position, and on Exhibit B-1, the Statement of Activities. Their primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements (Exhibits A-1 and B-1) report the District's net position and changes in it. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one

indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

The Statement of Net Position and the Statement of Activities are comprised of governmental activities. The District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities. The District has no business-type activities.

### Reporting the District's Most Significant Funds

The fund financial statements begin on page 3 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District uses exclusively Governmental-type funds (as opposed to Business-type funds). The District's basic services are reported in governmental funds. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

### The District as Trustee

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Position on page 10. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### Government-Wide Financial Analysis

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental-type activities; both tables can be found on page viii of this analysis.

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Net position is made up of three major components: net investment in capital assets, restricted, and unrestricted. In the case of the District, liabilities exceeded assets by \$49,586,374 at August 31, 2019, compared to \$48,249,758 at August 31, 2018. The decrease in total net assets of \$1,336,616 compared to the increase in the prior fiscal year totaling \$4,327,022.

The major factors contributing to the decrease in net position invested in capital assets net of related debt was current year accretion of interest, depreciation expense, capital additions, and repayment of long term debt. Accreted interest is the change in the current value of an original-issue discount bond. Since the interest is compounded each year until it is paid, the bond is sold at a discount from par. Each year a portion of the future obligation to pay the compounded interest is recognized as an expense. The compounded interest is calculated as the change in present value of the bond versus the present value from the previous year. The cash requirements for the repayment of the principal, current interest and compounded interest remain unchanged as a result of this calculation. Those requirements are listed in the footnotes to these financial statements. Depreciation expense is only recorded for purposes of the government wide financial statement presentation and does not represent an outflow of cash as the cash was paid when the asset was acquired. Capital additions and repayments of long term debt are not shown as an outflow of net position.

Listed below is a detail of the changes in net investment in capital assets:

Beginning balance	\$	(43,699,552)
Accreted Interest		(4,261,535)
Depreciation expense		(5,109,327)
Refunding of outstanding bonds		-
Amortization of premiums and deferred charges		119,262
Capital asset additions		2,967,852
Repayment of debt		5,805,000
Ending balance	\$	<u>(44,178,300)</u>

The negative balance in net investment in capital assets results from the fact that the book balance of the capital assets (purchase costs less accumulated depreciation to date) is less than the book balance of capital debt (outstanding principal plus accreted interest to date). The overall deficit balance in net position is largely a result of the fact that necessary tax revenues for debt service have yet to be assessed and recognized for financial statement purposes. Future tax revenues will be recognized annually as the capital debt nears maturity and will require payment.

The District recognized an increase of \$475,642 in cash and investments resulting in an ending balance of \$27,762,778 which approximates the total of restricted and unrestricted net position, net of pension and OPEB liabilities.

The District's total revenues increased by 8.25%, or a total of \$5,431,827. A significant portion, 44%, of the District's revenues comes from taxes. Tax collections and total tax levy increased approximately 5.6% from prior year. State and Federal revenues increased by approximately 12.8%. Investment earnings increased slightly throughout the year.

The total cost of all governmental activities, including accreted interest and depreciation expense, for the current year was \$72,643,006. As shown in the Statement of Activities on page 2, the amount that our taxpayers ultimately financed for these activities through District taxes and net position was only approximately \$34.3 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding.

#### The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 3) reported a combined fund balance of \$25,516,727, as compared to the year ending August 31, 2018 fund balance of \$24,999,638. The \$517,089 increase in fund balance results from an increase in the fund balance in the Capital Projects Fund of \$552,665 net decreases in other governmental funds of \$35,576.

The District's General Fund balance of \$19,746,143 reported on page 5 differs from the General Fund's budgetary fund balance of \$17,946,366 reported in the budgetary comparison schedule on page 38. This is principally due to cost savings in personnel.

### Capital Asset and Debt Administration

#### Capital Assets

At the end of 2019, the District had approximately \$152 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, food service, athletics, administration, and maintenance. Additional information on capital assets is contained in Note V, Section F of the Notes to the Financial Statements.

#### Debt

At year-end, the District had \$115,313,683 in bond principal outstanding versus \$120,314,341 last year. Additional information on debt can be found in Note V, Section G of the Notes to the Financial Statements.

### Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal-year 2020 budget and tax rates. One of those factors is the net taxable value which had an increase of approximately 17% from 2018 net taxable values. The District's 2019-2020 refined average daily attendance is expected to increase. The District budgeted based on numbers from 2018-2019 with no increase.

These factors as well as others were taken into account when adopting the General Fund budget for 2020. Amounts available for appropriation in the General Fund budget are approximately \$56 million. The District will use its revenues to finance programs we currently offer. In fiscal year 2019, the District set aside \$3.1 million to fund building improvements. As of August 31, 2019 approximately \$1.16 million of that remained of those funds. Salaries comprise approximately 77% of the General Fund expenditure budget. The Maintenance and Operations (M&O) tax rate is at the maximum allowed by law. The District went to the voters for a TRE in 2018 which passed. The 86<sup>th</sup> Legislative session enacted laws that require the compression of the M&O rate in 2019. The M&O rate decreased from \$1.17/\$100 in 2018 \$1.06385/\$100 in 2019. The Interest and Sinking (I&S) tax rate decreased from .4958% to .42% and will be used to cover the debt payments as a result of the issued bonds.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase by the close of 2020.

### Contacting the District's Financial Management

This 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 financial information, contact the District's business office, at Ennis Independent School District, 303 W. Knox, Ennis, TX 75119.



Ennis Independent School District

Table I  
Net Position

	Governmental Activities 2019	Governmental Activities 2018
Current and other assets	\$ 32,213,088	\$ 31,369,022
Capital assets, net	152,432,395	154,573,870
Total assets	184,645,483	185,942,892
Deferred outflows of resources	26,519,834	21,438,891
Total assets and deferred outflows of resources	211,165,317	207,381,783
Long-term liabilities	241,246,240	236,119,733
Other liabilities	12,447,716	11,219,410
Total liabilities	253,693,956	247,339,143
Deferred inflows of resources	7,057,735	8,292,398
Total liabilities and deferred inflows of resources	260,751,691	255,631,541
Net Position:		
Net investment in capital assets	(44,178,300)	(43,699,552)
Restricted	5,614,201	5,350,928
Unrestricted	(11,022,275)	(9,901,134)
Total net position	\$ (49,586,374)	\$ (48,249,758)

Table II  
Changes in Net Position

	Governmental Activities 2019	Governmental Activities 2018
Revenues:		
Program revenues:		
Charges for services	\$ -	\$ -
Operating grants and contributions	7,735,830	7,608,635
General revenues:		
Maintenance and operations taxes	24,068,068	20,031,172
Debt service taxes	7,343,090	9,706,829
Grants and contributions not restricted to specific functions	30,557,806	26,345,856
Investment earnings	835,889	559,337
Miscellaneous	765,707	1,622,734
Total revenue	71,306,390	65,874,563
Expenses:		
11 Instruction	37,951,109	29,872,560
12 Instructional resources and media services	913,872	729,555
13 Curriculum and staff development	635,710	477,320
21 Instructional leadership	2,011,261	1,275,867
23 School leadership	2,952,200	2,291,514
31 Guidance, counseling and evaluation services	2,009,969	1,511,812
32 Social work services	36,237	48,285
33 Health services	675,481	612,218
34 Student (pupil) transportation	1,944,356	1,599,708
35 Food services	3,811,670	3,610,959
36 Cocurricular/extracurricular activities	1,990,607	1,831,830
41 General administration	2,065,170	1,758,295
51 Plant maintenance and operations	5,751,353	5,916,996
52 Security and monitoring services	567,790	404,761
53 Data processing services	981,359	550,711
61 Community services	8,586	34,250
72 Debt service - Interest on long term debt	8,332,823	8,922,401
73 Debt service - Bond issuance cost and fees	3,453	98,499
81 Facilities acquisition and construction	-	-
93 Payments to fiscal agent/member districts of SSA	-	-
Total expenses	72,643,006	61,547,541
Increase (decrease) in net position	(1,336,616)	4,327,022
Beginning net position	(48,249,758)	(23,647,537)
Prior period adjustment	-	(28,929,243)
Ending net position	\$ (49,586,374)	\$ (48,249,758)

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 287,966
1120 Current Investments	27,472,762
1220 Property Taxes - Delinquent	888,258
1230 Allowance for Uncollectible Taxes	(10,000)
1240 Due from Other Governments	3,396,334
1300 Inventories	55,991
1410 Prepayments	92,977
1490 Other Current Assets	28,800
Capital Assets:	
1510 Land	5,600,696
1520 Buildings, Net	144,199,393
1530 Furniture and Equipment, Net	2,632,306
1000 Total Assets	184,645,483
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	17,056,160
1705 Deferred Outflow Related to TRS Pension	7,898,543
1706 Deferred Outflow Related to TRS OPEB	1,565,131
1700 Total Deferred Outflows of Resources	26,519,834
<b>LIABILITIES</b>	
2110 Accounts Payable	1,216,762
2120 Short Term Debt Payable	6,645,000
2150 Payroll Deductions and Withholdings	20,061
2160 Accrued Wages Payable	2,703,854
2180 Due to Other Governments	62,144
2300 Unearned Revenue	1,799,895
Noncurrent Liabilities:	
2502 Due in More Than One Year	207,021,855
2540 Net Pension Liability (District's Share)	15,440,536
2545 Net OPEB Liability (District's Share)	18,783,849
2000 Total Liabilities	253,693,956
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	942,319
2606 Deferred Inflow Related to TRS OPEB	6,115,416
2600 Total Deferred Inflows of Resources	7,057,735
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	(44,178,300)
3820 Restricted for Federal and State Programs	1,247,120
3850 Restricted for Debt Service	3,053,699
3860 Restricted for Capital Projects	1,164,414
3890 Restricted for Other Purposes	148,968
3900 Unrestricted	(11,022,275)
3000 Total Net Position	\$ (49,586,374)

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 37,951,109	\$ -	\$ 2,317,301	\$ (35,633,808)
12 Instructional Resources and Media Services	913,872	-	26	(913,846)
13 Curriculum and Instructional Staff Development	635,710	-	87,406	(548,304)
21 Instructional Leadership	2,011,261	-	897,882	(1,113,379)
23 School Leadership	2,952,200	-	9,717	(2,942,483)
31 Guidance, Counseling and Evaluation Services	2,009,969	-	390,715	(1,619,254)
32 Social Work Services	36,237	-	-	(36,237)
33 Health Services	675,481	-	-	(675,481)
34 Student (Pupil) Transportation	1,944,356	-	-	(1,944,356)
35 Food Services	3,811,670	-	3,632,913	(178,757)
36 Extracurricular Activities	1,990,607	-	379,530	(1,611,077)
41 General Administration	2,065,170	-	11,150	(2,054,020)
51 Facilities Maintenance and Operations	5,751,353	-	604	(5,750,749)
52 Security and Monitoring Services	567,790	-	-	(567,790)
53 Data Processing Services	981,359	-	-	(981,359)
61 Community Services	8,586	-	8,586	-
72 Debt Service - Interest on Long-Term Debt	8,332,823	-	-	(8,332,823)
73 Debt Service - Bond Issuance Cost and Fees	3,453	-	-	(3,453)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 72,643,006	\$ -	\$ 7,735,830	(64,907,176)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	24,068,068
DT	Property Taxes, Levied for Debt Service	7,343,090
GC	Grants and Contributions not Restricted	30,557,806
IE	Investment Earnings	835,889
MI	Miscellaneous Local and Intermediate Revenue	765,707
TR	Total General Revenues	63,570,560
CN	Change in Net Position	(1,336,616)
NB	Net Position - Beginning	(48,249,758)
NE	Net Position - Ending	\$ (49,586,374)

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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ENNIS 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	\$ 430,091	\$ -	\$ (158,151)	\$ 271,940
1120 Investments - Current	21,360,626	3,075,290	3,036,846	27,472,762
1220 Property Taxes - Delinquent	622,313	265,945	-	888,258
1230 Allowance for Uncollectible Taxes	(7,006)	(2,994)	-	(10,000)
1240 Due from Other Governments	2,081,482	4,098	1,310,754	3,396,334
1260 Due from Other Funds	1,030,018	7,111	-	1,037,129
1300 Inventories	-	-	55,991	55,991
1410 Prepayments	92,977	-	-	92,977
1490 Other Current Assets	28,800	-	-	28,800
1000 Total Assets	<u>\$ 25,639,301</u>	<u>\$ 3,349,450</u>	<u>\$ 4,245,440</u>	<u>\$ 33,234,191</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 821,444	\$ -	\$ 394,679	\$ 1,216,123
2150 Payroll Deductions and Withholdings Payable	20,061	-	-	20,061
2160 Accrued Wages Payable	2,598,245	-	105,609	2,703,854
2170 Due to Other Funds	7,111	-	1,030,018	1,037,129
2180 Due to Other Governments	33,442	28,702	-	62,144
2300 Unearned Revenue	2,411,104	267,049	-	2,678,153
2000 Total Liabilities	<u>5,891,407</u>	<u>295,751</u>	<u>1,530,306</u>	<u>7,717,464</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	-	-	55,991	55,991
3430 Prepaid Items	92,977	-	-	92,977
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	1,245,369	1,245,369
3470 Capital Acquisition and Contractual Obligation	-	-	1,164,414	1,164,414
3480 Retirement of Long-Term Debt	-	3,053,699	-	3,053,699
Committed Fund Balance:				
3510 Construction	5,710,625	-	-	5,710,625
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	249,360	249,360
3600 Unassigned Fund Balance	13,944,292	-	-	13,944,292
3000 Total Fund Balances	<u>19,747,894</u>	<u>3,053,699</u>	<u>2,715,134</u>	<u>25,516,727</u>
4000 Total Liabilities and Fund Balances	<u>\$ 25,639,301</u>	<u>\$ 3,349,450</u>	<u>\$ 4,245,440</u>	<u>\$ 33,234,191</u>

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

ENNIS 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>	\$	25,516,727
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		15,387
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$257,646,654 and the accumulated depreciation was (\$103,072,784). 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 decrease net position.		(43,699,552)
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to decrease net position.		4,630,579
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$7,898,543, a Deferred Resource Inflow in the amount of \$942,319 and a net pension liability in the amount of \$15,440,536. The impact of this is a decrease in Net Position.		(8,484,312)
5 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. The District's share of the TRS plan resulted in a net OPEB liability of \$18,783,849, a deferred outflow of \$1,565,131 and a deferred inflow of \$6,115,416. This resulted in a difference between the ending fund balance and the ending net position of (23,334,134).		(23,334,134)
6 The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(5,109,327)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		878,258
<b>19 Net Position of Governmental Activities</b>	<u>\$</u>	<u>(49,586,374)</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 25,044,055	\$ 7,784,369	\$ 965,093	\$ 33,793,517
5800 State Program Revenues	26,338,767	182,434	769,471	27,290,672
5900 Federal Program Revenues	958,987	-	6,158,823	7,117,810
5020 Total Revenues	<u>52,341,809</u>	<u>7,966,803</u>	<u>7,893,387</u>	<u>68,201,999</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	29,207,554	-	2,317,301	31,524,855
0012 Instructional Resources and Media Services	851,260	-	26	851,286
0013 Curriculum and Instructional Staff Development	500,114	-	87,406	587,520
0021 Instructional Leadership	817,862	-	897,882	1,715,744
0023 School Leadership	2,534,705	-	9,717	2,544,422
0031 Guidance, Counseling and Evaluation Services	1,411,725	-	390,715	1,802,440
0032 Social Work Services	36,237	-	-	36,237
0033 Health Services	612,895	-	-	612,895
0034 Student (Pupil) Transportation	1,650,262	-	-	1,650,262
0035 Food Services	-	-	3,634,664	3,634,664
0036 Extracurricular Activities	1,116,734	-	379,530	1,496,264
0041 General Administration	1,828,421	-	11,150	1,839,571
0051 Facilities Maintenance and Operations	5,197,985	-	604	5,198,589
0052 Security and Monitoring Services	523,877	-	-	523,877
0053 Data Processing Services	900,099	-	-	900,099
0061 Community Services	-	-	8,586	8,586
<b>Debt Service:</b>				
0071 Principal on Long-Term Debt	-	5,805,000	-	5,805,000
0072 Interest on Long-Term Debt	-	4,190,550	-	4,190,550
0073 Bond Issuance Cost and Fees	-	3,453	-	3,453
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	170,166	-	2,588,430	2,758,596
6030 Total Expenditures	<u>47,359,896</u>	<u>9,999,003</u>	<u>10,326,011</u>	<u>67,684,910</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,981,913</u>	<u>(2,032,200)</u>	<u>(2,432,624)</u>	<u>517,089</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	2,031,821	3,141,095	5,172,916
8911 Transfers Out (Use)	(5,172,916)	-	-	(5,172,916)
7080 Total Other Financing Sources (Uses)	<u>(5,172,916)</u>	<u>2,031,821</u>	<u>3,141,095</u>	<u>-</u>
1200 Net Change in Fund Balances	(191,003)	(379)	708,471	517,089
0100 Fund Balance - September 1 (Beginning)	<u>19,938,897</u>	<u>3,054,078</u>	<u>2,006,663</u>	<u>24,999,638</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 19,747,894</u>	<u>\$ 3,053,699</u>	<u>\$ 2,715,134</u>	<u>\$ 25,516,727</u>

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

ENNIS 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>	\$	517,089
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.</p>		
		(1,042)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to decrease net position.</p>		
		4,630,579
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(5,109,327)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.</p>		
		(60,287)
<p>Current year changes due to GASB 68 increased revenues in the amount of \$2,482,542 but also increased expenditures in the amount of \$3,687,364. The net effect on the change in the ending net position was a decrease in the amount of \$1,204,822.</p>		
		(1,204,822)
<p>Current year changes due to GASB 75 increased revenues in the amount of \$595,076 but also increased expenditures in the amount of \$703,882. The changes in the ending net position as a result of reporting the OPEB items was an decrease in the change in net position in the amount of \$108,806.</p>		
		(108,806)
 <b>Change in Net Position of Governmental Activities</b>	 \$	 <u><u>(1,336,616)</u></u>

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

PROPRIETARY FUNDS

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

EXHIBIT D-1

	Governmental Activities -	
	Internal Service Fund	
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 16,026	
Total Assets	16,026	
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	639	
Total Liabilities	639	
<b>NET POSITION</b>		
Unrestricted Net Position	15,387	
Total Net Position	\$ 15,387	

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

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

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 87,060
Total Operating Revenues	87,060
OPERATING EXPENSES:	
Payroll Costs	41,896
Professional and Contracted Services	28,388
Supplies and Materials	17,818
Total Operating Expenses	88,102
Operating Income (Loss)	(1,042)
Total Net Position - September 1 (Beginning)	16,429
Total Net Position - August 31 (Ending)	\$ 15,387

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



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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 87,060
Cash Payments to Employees for Services	(42,830)
Cash Payments for Suppliers	(28,388)
Cash Payments for Other Operating Expenses	(17,818)
Net Cash Used for Operating Activities	(1,976)
Net Decrease in Cash and Cash Equivalents	(1,976)
Cash and Cash Equivalents at Beginning of Year	18,002
Cash and Cash Equivalents at End of Year	\$ 16,026
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (1,042)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(934)
Net Cash Used for Operating Activities	\$ (1,976)

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

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FIDUCIARY FUND (AND SIMILAR COMPONENT UNITS)  
FINANCIAL STATEMENTS

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

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 203,342
Investments - Current	1,734,362
Total Assets	<u>\$ 1,937,704</u>
LIABILITIES	
Due to Student Groups	<u>\$ 1,937,704</u>
Total Liabilities	<u>\$ 1,937,704</u>

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

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### I. Summary of Significant Accounting Policies

#### A. Reporting Entity

The Board of School Trustees, a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Ennis Independent School District (the "District"). Because members of the Board of Trustees are elected by the public, they have the authority to make decisions, appoint administrators and managers, significantly influence operations, and have the primary accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

Since the District receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

#### B. Government-wide and Fund Financial Statements

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

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

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

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

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### B. Government-wide and Fund Financial Statements, continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

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

*Pensions* - The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Other Post-Employment Benefits* - The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

D. Fund Accounting

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Governmental Funds:

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



## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### D. Fund Accounting, continued

2. Debt Service Funds - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. Capital Projects Funds - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
4. Permanent Funds - The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no permanent funds.

#### Proprietary Funds:

5. Enterprise Funds - The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise fund.
6. Internal Service Funds - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has one internal service fund for printing.

#### Fiduciary Funds:

7. Private Purpose Trust Funds - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no private purpose trust funds.
8. Pension (and Other Employee Benefit) Trust Funds - These funds are used to account for local pension and other employee benefit funds that are provided by the District, in lieu of or in addition to, the Teacher Retirement System of Texas. The District has no pension trust funds.
9. Investment Trust Fund - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no investment trust funds.
10. Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

E. Other Accounting Policies

1. For purposes of the Statement of Cash Flows for proprietary and similar fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Supplies are recorded as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

4. Capital assets, which include land, buildings, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	50
Buses	15
Office Equipment	7
Vehicles	5
Computer Equipment	3

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### E. Other Accounting Policies, continued

5. In the Government-Wide Financial Statements net assets on the Statement of Net Assets include the following:

Invested in Capital Assets, Net of Related Debt -- the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt net of premiums and discounts, excluding unspent

proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted -- the component of net assets that reports the difference between assets and liabilities with constraints placed on their use by law for Federal and State Programs, Debt Service, Capital Projects.

Unrestricted -- the difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for Food Service or Net Assets Restricted for Debt Service.

In the Governmental Fund Financial Statements the District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the District classifies governmental fund balances as follows:

Nonspendable -- includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items.

Restricted -- includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the child nutrition program, retirement of long term debt, construction programs and other federal and state grants.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

E. Other Accounting Policies, continued

Committed -- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification includes campus activity funds, local special revenue funds and potential litigation, claims and judgments.

Assigned -- includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Assistant Superintendent of Finance. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years and other legal uses.

Unassigned -- includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

6. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
7. The Data Control Codes refer to the account code structure prescribed by Texas Education Agency (the "TEA") in the *Financial Accountability System Resource Guide* (the "Resource Guide"). The TEA 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.
8. The Resource Guide provides that Texas school districts record net tax levies initially as deferred revenue and convert those deferrals to realized revenue when the taxes are collected. The District had the following deferred revenues for major funds (reported on the Balance Sheet as Unearned and Unavailable Revenues) at August 31, 2019:

	<u>General Fund</u>	<u>Debt Service</u>
General Fund Debt Service		
From Property Taxes	\$ 615,307	\$ 262,951
Other Deferred Revenue:		
Other items	-	-
Foundation Aid	<u>1,795,797</u>	<u>4,098</u>
Total Deferred Revenues	\$ <u>2,411,104</u>	\$ <u>267,049</u>

9. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31 and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. This year all encumbrances were paid and none carried over to following year.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

E. Other Accounting Policies, continued

10. In accordance with Texas Education Code, Chapter 44, subchapter A, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses the code structure presented in the Accounting Code of the Resource Guide.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

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

The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 5,600,696	\$ -	\$ 5,600,696	
Buildings	224,908,242	(78,870,109)	146,038,133	
Vehicles & equipment	27,137,716	(24,202,675)	2,935,041	
Construction in process	<u>-</u>	<u>-</u>	<u>-</u>	
Change in net position				\$ 154,573,870
 <u>Long-term liabilities at the beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds payable			(195,785,592)	
Deferred charges on refunding			18,089,003	
Premiums on issuance			<u>(20,576,833)</u>	
Change in net position				(198,273,422)
Net adjustment to net position				\$ (43,699,552)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

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

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities, continued

	<u>Amount</u>	(Exhibit C-4) <u>Adjustments to Changes in Net Position</u>	(Exhibit C-2) <u>Adjustments to Net Position</u>
Current year capital outlay			
Buildings & improvements	\$ 2,339,165		
Vehicles	-		
Equipment	<u>628,687</u>		
Total capital outlay	2,967,852	\$ 2,967,852	\$ 2,967,852
Bond principal payments	5,805,000	5,805,000	5,805,000
Accretion of interest	(4,261,535)	(4,261,535)	(4,261,535)
Amortization of deferred refunding charges	(1,032,843)	(1,032,843)	(1,032,843)
Amortization of bond premiums	(1,152,105)	<u>1,152,105</u>	<u>1,152,105</u>
Adjustment to net position		<u>\$ 4,630,579</u>	<u>\$ 4,630,579</u>

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

	<u>Amount</u>	(Exhibit C-4) <u>Adjustments to Changes in Net Position</u>	(Exhibit C-2) <u>Adjustments to Net Position</u>
Adjustments to revenue and deferred revenue			
Current year taxes not collected	\$ 387,555	\$ 387,555	
Taxes collected from prior year levies	(337,106)	(337,106)	
Uncollected taxes (assumed collectible) from current year levy	377,555		\$ 377,555
Uncollected taxes (assumed collectible) from prior year levy	500,703		500,703
Miscellaneous net charges	(100,736)	<u>(110,736)</u>	<u>-</u>
Total		<u>\$ (60,287)</u>	<u>\$ 878,258</u>

III. Stewardship, Compliance, and Accountability

A. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### A. Budgetary Data, continued

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 notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

### IV. Detailed Notes on All Funds and Account Groups

#### A. Deposits, Securities and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust, with the District's agent bank, approved pledged securities 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.

1. Cash Deposits - The District's cash deposits at August 31, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in District's name. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.
2. Investments - The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

A. Deposits, Securities and Investments - continued

based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investments contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The entire balance on the date of highest deposit should be either collateralized with securities held by the District’s agent or covered by FDIC insurance. Thus, the District’s deposits should not be exposed to custodial credit risk. The following is disclosed regarding coverage of cash deposit balances on the date of highest deposit:
  1. Name of the bank: Prosperity Bank - Ennis, TX
  2. The largest combined balances of cash, savings, and time deposits accounts amounted to \$1,561,157 occurred during the month of August 2019.
  3. The combined balances above on that date did not exceed the collateral and FDIC insurance.
  
- b. 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 the possession of an outside party. At August 31, 2019, the District held investments in bank certificates of deposit and in public fund investment pools. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The District’s investments in certificates of deposit are with the District’s depository bank and are collateralized with securities held by the District’s agent.
  
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The District invests only in investment pools that are rated AAA or AAAM and certificates of deposit. The credit quality rating for the TexPool Investment Pool, the MBIA Texas CLASS, and the TexasTERM portfolios at year-end were all AAAM (Standard & Poor’s).



**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

A. Deposits, Securities and Investments – continued

- d. **Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The maturity date of the certificates of deposit ranged from 12 months to 18 months at the time of purchase. The weighted average maturity for the District’s investment in external investment pools is less than 60 days.
  
- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2019, the District was not exposed to foreign currency risk.
  
- f. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The District invests only in investment pools and certificates of deposit at the District’s depository bank, which are collateralized by securities held by the District's agent. Investment pools are excluded from the 5 percent disclosure requirement. Investments in certificates of deposit with Citizens National Bank represented 27 percent of total investments.

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rules 2a7 of the Investment Company Act of 1940. The District's temporary investments at August 31, 2019 are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 10,554,028	\$ 10,554,028
MBIA Texas CLASS	8,537,300	8,537,300
TexasTERM	1,051,758	1,051,758
Money market accounts	201,411	201,411
Certificates of deposit	<u>7,128,265</u>	<u>7,128,265</u>
Total investments	\$ <u>27,472,762</u>	\$ <u>27,472,762</u>

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

B. Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 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 when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the school fiscal year.

C. Delinquent Taxes Receivable

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

D. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2019 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Non Grant</u>	<u>Total</u>
General	\$ 2,081,482	\$ -	\$ -	\$ 2,081,482
Special Revenue	573,529	737,225	-	1,310,754
Debt Service Funds	4,098	-	-	4,098
Total	<u>\$ 2,659,109</u>	<u>\$ 737,225</u>	<u>\$ -</u>	<u>\$ 3,396,334</u>

E. Inter-fund Receivables and Payables

Inter-fund balances at August 31, 2019 consisted of the following individual fund balances:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund:		
Special Revenue Funds	\$ 1,030,018	\$ -
Debt Service Fund	-	7,111
Special Revenue Funds:		
General Fund	-	1,030,018
Debt Service Fund:		
General Fund	<u>7,111</u>	<u>-</u>
Total	<u>\$ 1,037,129</u>	<u>\$ 1,037,129</u>

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

F. Changes in General Fixed Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass/ Retirement</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 5,600,696	\$ -	\$ -	\$ 5,600,696
Buildings and improvements	224,908,242	2,339,165	-	227,247,407
Vehicles	5,917,996	-	-	5,917,996
Equipment	21,219,720	628,687	-	21,848,407
Construction in progress	-	-	-	-
Total	<u>\$257,646,654</u>	<u>\$ 2,967,852</u>	<u>\$ -</u>	<u>\$260,614,506</u>
Less accumulated depreciation for:				
Buildings and improvements	(78,870,109)	(4,177,905)	-	(83,048,014)
Vehicles and equipment	<u>(24,202,675)</u>	<u>(931,422)</u>	-	<u>(25,134,097)</u>
Total accumulated depreciation	<u>(103,072,784)</u>	<u>(5,109,327) *</u>	<u>-</u>	<u>(108,182,111)</u>
Governmental activities capital assets, net	<u>\$ 154,573,870</u>	<u>\$ (2,141,475)</u>	<u>\$ -</u>	<u>\$ 152,432,395</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 3,312,462
Curriculum and instructional staff development	4,277
Instructional leadership	56,260
School leadership	125,631
Guidance, counseling and evaluation services	76
Student transportation	212,834
Food services	289,507
Co-curricular activities	406,519
General administration	30,999
Plant maintenance and operations	670,762
Security and monitoring services	-
Total depreciation expense	<u>\$ 5,109,327</u>

G. Bonds

Ennis Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2 - 12 to enable investors to analyze the financial condition and operations of Ennis Independent School District.

Long-term liability activity for the year ended August 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds payable:					
General obligation debt	\$120,314,341	\$ -	\$ (5,000,658)	\$115,313,683	\$ 5,814,044
Accreted interest	<u>75,471,251</u>	<u>4,261,535</u>	<u>(804,342)</u>	<u>78,928,444</u>	<u>830,956</u>
Total	<u>\$195,785,592</u>	<u>\$ 4,261,535</u>	<u>\$ (5,805,000)</u>	<u>\$194,242,127</u>	<u>\$ 6,645,000</u>

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

**G. Bonds – continued**

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Effective interest rates on the bonds range from .69% to 5.00%.

Presented below is a summary of general obligation bond payment requirements to maturity:

<u>Year ended</u> <u>August 31,</u>	<u>General Obligation</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2020	\$ 5,814,044	\$ 4,779,706	\$ 10,593,750
2021	6,809,431	4,510,319	11,319,750
2022	8,605,701	3,644,049	12,249,750
2023	10,232,016	3,279,984	13,512,000
2024	11,534,388	2,832,612	14,367,000
2025-2029	37,674,838	36,099,162	73,774,000
2030-2034	13,965,037	67,660,963	81,626,000
2035-2039	18,853,228	51,681,772	70,535,000
2040	<u>1,825,000</u>	<u>6,835,000</u>	<u>8,660,000</u>
<b>Total</b>	<b>\$115,313,683</b>	<b>\$ 181,323,567</b>	<b>\$296,637,250</b>

<u>Issue</u>	<u>Rate</u>	<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Series 2010 Refunding Bonds	.069% -4.73%	2020-2030	\$ 4,252,021	\$ 5,892,979	\$ 10,145,000
Series 2013 Refunding Bonds	4.29%-4.32%	2039-2040	3,755,000	13,565,000	17,320,000
Series 2015 Refunding Bonds	3.16% -5.00%	2020-2037	63,134,483	89,223,767	152,358,250
Series 2016 Refunding Bonds	3.02%-5.00%	2020-2037	9,747,102	10,269,648	20,016,750
Series 2017 Refunding Bonds	3.54%-5.00%	2020-2038	32,863,749	57,409,501	90,273,250
Series 2018 Refunding Bonds	1.61%-3.87%	2020-2038	<u>1,561,328</u>	<u>4,962,672</u>	<u>6,524,000</u>
<b>Total Bonds</b>			<b>\$115,313,683</b>	<b>\$181,323,567</b>	<b>\$296,637,250</b>

The 2010, 2013, 2015, 2016, 2017 and 2018 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature at various dates from 2020 to 2040. Interest accrues on these bonds each February 15 and August 15 even though the interest is not paid until maturity.

The long-term portion of outstanding bonds recorded on the Statement of Net Position includes unamortized issuance premiums on bonds totaling \$19,424,735 at August 31, 2019.

**H. Debt Issuance and Defeased Debt**

In prior years, the District has defeased other bond series in advance refunding transactions which have since been fully redeemed. NO amounts were issued for the year ended August 31, 2019. As of August 31, 2019, no amounts remain outstanding.

**I. Health Care Coverage**

During the year ended August 31, 2019, employees of the District were covered under the TRS Active Care health care plan. The District enrolled in TRS Active Care, the statewide health coverage program for public education employees, effective September 1, 2002. The District contributes \$200 per employee on a monthly basis to be used toward health insurance premiums; employees, at their option, may authorize payroll withholdings to pay premiums for dependents.

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### J. Defined Benefit Pension Plan

#### Plan Description

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

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

#### 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 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.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

J. Defined Benefit Pension Plan - continued

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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. Contribution Rates can be found in the TRS 2018 CAFR, Note 11, on page 76.

Contribution Rates

	<u>2019</u>	<u>2018</u>
Member	7.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

District's 2019 FY Employer Contributions	\$ 1,003,648
District's 2019 FY Member Contributions	\$ 2,475,520
Measurement Year NECE On-Behalf Contributions	\$ 1,534,189

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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 or a privately sponsored source.

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### J. Defined Benefit Pension Plan - continued

#### Contribution Rates - continued

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 employment 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 Pensioner Mortality Tables.

The following table discloses the assumptions that were applied to 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 Rate	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 in 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 were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July, 2018.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

J. Defined Benefit Pension Plan - continued

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 these assumptions, the pension plan's fiduciary net position was 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 System's target asset allocation as of August 31, 2018 (see page 52 of the TRS CAFR) are summarized below:

Asset Class	Target Allocation (1)	Real Return Geometric Basis (2)	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
U.S.	18.00%	5.70%	1.04%
Non-U.S. Developed	13.00%	6.90%	0.90%
Emerging Markets	9.00%	8.95%	0.80%
Directional Hedge Funds	4.00%	3.53%	0.14%
Private Equity	13.00%	10.20%	1.32%
Stable Value			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	3.09%	0.12%
Cash	1.00%	-0.30%	0.00%
Real Return			
Global Inflation	3.00%	0.70%	0.02%
Real Assets	14.00%	5.21%	0.73%
Energy and Natural Resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectation	0.00%		2.30%
Volatility Drag (3)	<u>0.00%</u>		<u>-0.79%</u>
Total	<u>100.00%</u>		<u>7.25%</u>

1 Target allocations are on the FY2016 policy model

2 Capital market assumptions come from A on Hewitt (2017 Q4)

3 The volatility drag results from the conversion between arithmetic and geometric mean returns.



**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

J. Defined Benefit Pension Plan - continued

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. The discount rate can be found in the 2018 TRS CAFR, Note 11, page 78.

	1% Decrease (5.907%)	Discount Rate (6.907%)	1% Increase (7.907%)
District's proportionate share of the net pension liability:	\$23,303,471	\$15,440,536	\$9,075,023

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

At August 31, 2019, Ennis Independent School District reported a liability of \$15,440,536 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Ennis Independent School District. The amount recognized by Ennis Independent School 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 Ennis Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 15,440,536
State's proportionate share that is associated with District	<u>25,082,935</u>
Total	<u>\$ 40,523,471</u>

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

At August 31, 2018 the employer's proportion of the collective net pension liability was .0280521% which was a decrease of 0.0009% from its proportion measured as of August 31, 2017.

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### J. Defined Benefit Pension Plan - continued

#### Changes Since the Prior Actuarial Valuation

Assumptions, methods, and plan changes which 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 experience 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 of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2019, Ennis Independent School District recognized pension expense of \$4,016,731 and revenue of \$2,482,542 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2019, Ennis Independent School 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 96,244	\$ 378,850
Changes in actuarial assumptions	5,567,057	173,971
Difference between projected and actual investment earnings	-	292,973
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,231,594	96,525
Contributions paid to TRS subsequent to the measurement date	<u>1,003,648</u>	<u>-</u>
Total	<u>\$7,898,543</u>	<u>\$ 942,319</u>

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

J. Defined Benefit Pension Plan – continued

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:

<u>Year ended August 31</u>	<u>Pension Expense Amount</u>
2020	\$ 2,628,719
2021	1,008,534
2022	835,000
2023	959,822
2024	924,150
Thereafter	<u>599,999</u>
Total	<u>\$ 6,956,224</u>

K. Defined Other Post-Employment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.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:

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

ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

K. Defined Other Post-Employment Benefit Plan - continued

Benefits Provided

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

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

The 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 Part A and Part B became effective January 1, 2018. (See the TRS CAFR page 70 for plan rates effective from September 1, 2016 - December 31, 2017.)

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 Medicare coverage.

TRS-Care Plan 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

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

K. Defined Other Post-Employment Benefit Plan - continued

Contributions

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

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% 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 fiscal year 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates

	<u>2019</u>	<u>2018</u>
Member (Active employee)	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.00%
Employers	0.75%	0.75%
Federal Funding remitted by Employers	1.25%	1.25%
District's 2019 FY Employer Contributions		\$ 251,540
District's 2019 FY Member Contributions		\$ 208,975
Measurement Year NECE On-Behalf Contributions		\$ 363,636

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, 85th 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 fiscal year 2018. House Bill 30 of the 85th Legislature provided an additional \$212 million in a one-time supplemental funding for the FY 2018-2019 biennium. One-time supplemental contributions during fiscal 2018 totaled \$394.6 million.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

K. Defined Other Post-Employment Benefit Plan - continued

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 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%
Discount rate	3.69% (1)
Aging factors	Based on plan specific experience
Expenses	Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost
Salary Increases including inflation	3.05% to 9.05% (2)
Payroll Growth Rate	2.55% (3)
Healthcare Trend Rates	6.75% to 107.74%
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Ad hoc post-employment benefit changes	None

- 1 Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
- 2 Includes inflation at 2.30%
- 3 Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75% for non-Medicare retirees.

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%
- Premium data submitted was not adjusted for permissible exclusions to 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 by a 25 basis point addition to the long-term trend rate assumption.

**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

K. Defined Other Post-Employment Benefit Plan - continued

Discount Rate

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

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 is one-percentage point lower (2.69%) or one-percentage point higher (4.69%) in measuring the Net OPEB liability.

1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
\$22,359,234	\$18,783,849	\$15,955,489

*Healthcare Cost Trend Rates* - The following presents the District’s proportional share of 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 tend rate used was is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$15,600,293	\$18,783,849	\$22,976,662

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB’s

At August 31, 2019, the District reported a liability of \$18,783,849 for its proportionate share of the TRS’s net OPEB 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 OPEB liability	\$ 18,783,849
State’s proportionate share that is associated with District	<u>26,357,064</u>
Total	<u>\$ 45,140,913</u>

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### K. Defined Other Post-Employment Benefit Plan - continued

#### OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB's - continued

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

At August 31, 2018 the District's proportion of the collective net pension liability was 0.0379% which was an increase of 0.0003% from its proportion measured as of August 31, 2017.

*Changes in Actuarial Assumptions Since the Prior Actuarial Valuation* -The following assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in 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.

*Changes in Benefit Terms* -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 preventative 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 their 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.



**ENNIS INDEPENDENT SCHOOL DISTRICT**

Notes to Financial Statements  
Year Ended August 31, 2019

K. Defined Other Post-Employment Benefit Plan - continued

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB's - continued

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 996,789	\$ 296,437
Changes in actuarial assumptions	313,452	5,643,469
Difference between projected and actual investment earnings	3,285	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	65	175,510
Contributions paid to TRS subsequent to the measurement date	<u>251,540</u>	<u>-</u>
Total	<u>\$ 1,565,131</u>	<u>\$ 6,115,416</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 OPEBs will be recognized in OPEB expense as follows:

<u>Year ended August 31</u>	<u>Pension Expense Amount</u>
2020	\$ (509,571)
2021	(761,111)
2022	(761,111)
2023	(761,733)
2024	(762,088)
Thereafter	<u>(994,671)</u>
Total	<u>\$ (4,550,285)</u>

## ENNIS INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements  
Year Ended August 31, 2019

### L. Teacher Employee Recruitment and Retention Program (TERRP)

Plan Description – Ennis Independent School District contributes to the Teacher Employee Recruitment and Retention Program Plan. The Plan is a defined contribution retirement plan and is completely funded by the employer. The Plan's annual financial report and other required disclosure information are available by writing the record keeper: JEM Resource Partners, 4201 Bee Caves Rd C-101, Austin, TX 78746.

Funding Policy – Under the plan provisions, the District contributes as a base match the lesser of 50% of an Employee's contribution to a 403(b) or 457 or 2% of the Employee's base salary if the Employee has less than 8 absences. In addition to the base match, Employees are eligible for an attendance match. An Employee with zero absences will receive an attendance match of the lesser 50% of the Employee's contribution to a 403(b) or 457 plan or 2% of the Employee's base salary. An Employee with less than three absences will receive an attendance match of 25% of the Employee's contribution to a 403(b) or 457 plan up to 1% of the Employee's base salary. District contributions for the years ending August 31, 2019 and 2018 were \$241,851 and \$257,975. Plan members are 100% vested after five years of employment, 75% vested after four years of employment, and 50% vested after three years of employment. Plan members are not vested in years one or two. The vesting schedule is waived and Participants become fully vested in their account balance for the following reasons:

Retirement (must qualify for TRS benefit), total disability (as defined by TRS) or death.

## REQUIRED TEA SCHEDULES

ENNIS 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	\$ 1,708,602,317
2011	1.040000	0.500000	1,725,726,510
2012	1.040000	0.500000	1,753,464,940
2013	1.040000	0.500000	1,763,054,156
2014	1.040000	0.500000	1,786,202,458
2015	1.040000	0.500000	1,771,832,606
2016	1.040000	0.500000	1,812,886,833
2017	1.040000	0.500000	1,905,270,892
2018	1.040000	0.500000	1,984,361,088
2019 (School year under audit)	1.170000	0.370000	2,086,871,531
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
\$ 98,241	\$ -	\$ 15,138	\$ 4,238	\$ (706)	\$ 78,159
22,393	-	3,890	1,870	(29)	16,604
24,620	-	3,272	1,573	(198)	19,577
30,740	-	4,905	2,358	3,862	27,339
36,979	-	8,331	4,005	13,965	38,608
66,152	-	12,546	6,032	11,267	58,841
81,321	-	16,516	7,940	10,784	67,649
113,828	-	32,948	15,840	8,144	73,184
363,535	-	148,191	70,647	(23,955)	120,742
-	31,505,958	23,552,309	7,448,160	(117,934)	387,555
<u>\$ 837,809</u>	<u>\$ 31,505,958</u>	<u>\$ 23,798,046</u>	<u>\$ 7,562,663</u>	<u>\$ (94,800)</u>	<u>\$ 888,258</u>

ENNIS 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		
	<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 555,362	\$ 459,194	\$ 521,690	\$ 62,496
5800 State Program Revenues	17,000	15,038	15,039	1
5900 Federal Program Revenues	3,010,712	3,018,226	3,222,992	204,766
5020 Total Revenues	<u>3,583,074</u>	<u>3,492,458</u>	<u>3,759,721</u>	<u>267,263</u>
<b>EXPENDITURES:</b>				
Current:				
0035 Food Services	<u>3,583,074</u>	<u>3,642,627</u>	<u>3,634,664</u>	<u>7,963</u>
6030 Total Expenditures	<u>3,583,074</u>	<u>3,642,627</u>	<u>3,634,664</u>	<u>7,963</u>
1200 Net Change in Fund Balances	-	(150,169)	125,057	275,226
0100 Fund Balance - September 1 (Beginning)	<u>1,176,303</u>	<u>1,176,303</u>	<u>1,176,303</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,176,303</u>	<u>\$ 1,026,134</u>	<u>\$ 1,301,360</u>	<u>\$ 275,226</u>

ENNIS 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		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 7,645,754	\$ 7,772,622	\$ 7,784,369	\$ 11,747
5800 State Program Revenues	227,436	184,533	182,434	(2,099)
5020 Total Revenues	7,873,190	7,957,155	7,966,803	9,648
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	5,000,658	5,805,000	5,805,000	-
0072 Interest on Long-Term Debt	4,994,892	4,190,550	4,190,550	-
0073 Bond Issuance Cost and Fees	3,000	3,453	3,453	-
6030 Total Expenditures	9,998,550	9,999,003	9,999,003	-
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,125,360)	(2,041,848)	(2,032,200)	9,648
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	2,125,360	2,041,848	2,031,821	(10,027)
1200 Net Change in Fund Balances	-	-	(379)	(379)
0100 Fund Balance - September 1 (Beginning)	3,054,078	3,054,078	3,054,078	-
3000 Fund Balance - August 31 (Ending)	\$ 3,054,078	\$ 3,054,078	\$ 3,053,699	\$ (379)

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