

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated: July 8, 2020**

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

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

**\$30,000,000\***

**CELINA INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Collin, Denton and Grayson Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

**Dated Date: July 15, 2020**

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

The Celina Independent School District Unlimited Tax School Building Bonds, Series 2020 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 4, 2019 and the order (the "Bond Order") adopted by the Board of Trustees (the "Board") on May 18, 2020. As permitted by Chapter 1371, the Board has, in the Bond Order, delegated to certain District officials and staff members the authority to establish final terms and effectuate the sale of the Bonds, which final terms shall be evidenced in a pricing certificate (the "Pricing Certificate") and, together with the Bond Order, the "Order" relating to the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the Celina Independent School District (the "District"). The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date shown above and will be payable on February 15 and August 15 of each year, commencing February 15, 2021, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on and after August 15, 2030 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on February 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Any Term Bonds (defined herein) shall be subject to mandatory sinking fund redemption to be described in the final Official Statement. (See "THE BONDS - Redemption").

**MATURITY SCHEDULE**  
(On Inside Cover Page)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchasers named below (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 11, 2020.*

**PIPER SANDLER & CO.**

**CITIGROUP**

\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**\$30,000,000\***  
**CELINA INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Collin, Denton and Grayson Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020**

**MATURITY SCHEDULE\***  
 BASE CUSIP NO: 151145<sup>(1)</sup>

<b>Maturity Date (8/15)</b>	<b>Principal Amount*</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix No.<sup>(1)</sup></b>
2023	\$80,000			
2024	150,000			
2025	270,000			
2026	280,000			
2027	290,000			
2028	290,000			
2029	295,000			
2030	305,000			
2031	315,000			
2032	320,000			
2033	330,000			
2034	340,000			
2035	350,000			
2036	365,000			
2037	370,000			
2038	700,000			
2039	930,000			
2040	955,000			
2041	985,000			
2042	1,905,000			
2043	1,960,000			
2044	2,025,000			
2045	2,080,000			
2046	2,145,000			
2047	2,495,000			
2048	2,570,000			
2049	3,400,000			
2050	3,500,000			

(Interest to accrue from the Dated Date)

*\*Preliminary, subject to change.*

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

# CELINA INDEPENDENT SCHOOL DISTRICT

## BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Kelly Juergens, President	2010	2021	Sales
Todd Snyder, Vice President	2012	2021	Teacher – Sherman ISD
Jeff Gravley, Secretary	2011	2023	Sales
Tracey Balsamo, Member	2015	2021	Self Employed
Brooks Barr, Member	2016	2023	Financial Advisor
Choc Christopher, Member	2005	2022	Self Employed
Chuck Hansen, Member	2012	2022	Accountant

## APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Dr. Tom Maglisceau	Superintendent	28 Years	3 Months
Rick DeMasters	Deputy Superintendent	29 Years	8 Years
John Matthews	Assistant Superintendent of Administrative Services	23 Years	7 Years
Lori Sitzes	Assistant Superintendent of Curriculum and Technology	32 Years	5 Years
Bill Hemby	Assistant Superintendent of Maintenance and Operations	33 Years	18 Years
Amber Pennell	Business Manager	15 Years	3 Months

## CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Morgan, Davis, & Company, P.C., Greenville, Texas	Certified Public Accountants

For additional information, contact:

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(469) 742-9100

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Plano, Texas 75024  
(214) 765-1470  
(214) 279-8683 (Fax)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY 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.

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 APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The District</b>	The Celina Independent School District (the "District") is a political subdivision of the State of Texas located in Collin, Denton and Grayson Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
<b>The Bonds</b>	The District's Unlimited Tax School Building Bonds, Series 2020 (the "Bonds") are being issued in the principal amount of \$30,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 4, 2019 (the "Election") and the order (the "Bond Order") adopted by the Board of Trustees (the "Board") on May 18, 2020. As permitted by Chapter 1371, the Board has, in the Bond Order, delegated to certain District officials and staff members (each, a "Designated Financial Officer") the authority to establish final terms and effectuate the sale of the Bonds, which final terms shall be evidenced in a pricing certificate (the "Pricing Certificate") and, together with the Bond Order, the "Order") relating to the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose.")
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
<b>Security</b>	The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
<b>Redemption</b>	The Bonds maturing on and after August 15, 2030 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on February 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Any Term Bonds (defined herein) shall be subject to mandatory sinking fund redemption to be described in the final Official Statement. (See "THE BONDS – Redemption.")
<b>Permanent School Fund Guarantee</b>	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
<b>Rating</b>	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel 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 Legal Opinion of Bond Counsel.")
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See "Appendix C – Form of Legal Opinion of Bond Counsel").
<b>Delivery</b>	When issued, anticipated to occur on or about August 11, 2020.

## INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Celina Independent School District (the "District"), a political subdivision of the State of Texas located in Collin, Denton and Grayson Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2020 (the "Bonds").

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 such financial and other information, will necessarily continue or be repeated in the future.

There follows in this Official Statement descriptions of the Bonds, the order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board") on May 18, 2020, the pricing certificate (the "Pricing Certificate" and, together with the Bond Order, the "Order") relating to the Bonds, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Celina Independent School District, 205 S. Colorado, Celina, Texas 75009 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

## 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 May 18, 2020 of Executive Order GA-23 which, among other things, maintained the previously ordered closure of in-person classroom attendance at school districts through the remainder of the 2019-2020 school year, maintained certain mandates regarding the minimization of in-person contact with people who are not in the same household, and reopened certain services under certain conditions and limitations (as provided therein). Public education teachers and staff are encouraged to continue to work remotely from home if possible, but may return to schools to conduct remote video instruction, as well as perform administrative duties, under the minimum standard health protocols found in guidance issued by the TEA. Beginning June 1, 2020, public school districts may offer, and public education students may accordingly visit school campuses for, in-person classroom instructional activities and learning options, such as summer school programs, special education evaluations, specialized assessments, and individualized tutoring, under the minimum standard health protocols found in guidance issued by the TEA. Executive Order GA-23 remains in place until 11:59 p.m. on June 3, 2020 unless otherwise modified, amended, rescinded or superseded by the Governor. 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.

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 "AD VALOREM TAX PROCEDURES". 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".

The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

## THE BONDS

### Authorization and Purpose

The Bonds are being issued in the principal amount of \$30,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 4, 2019 (the "Election") and the Bond Order. As permitted by Chapter 1371, the Board has, in the Bond Order, delegated to certain District officials and staff members (each, a "Designated Financial Officer") the authority to establish final terms and effectuate the sale of the Bonds, which final sale terms shall be evidenced in a pricing certificate (the "Pricing Certificate" and, together with the Bond Order, the "Order"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities, and the purchase of new school buses, and (ii) paying the costs of issuing the Bonds.

## General Description

The Bonds will be dated July 15, 2020 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable on February 15 and August 15 of each year, commencing February 15, 2021, until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation and surrender of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for 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.

## Redemption

*Optional Redemption.* The Bonds maturing on and after August 15, 2030 are subject to redemption at the option of the District in whole or in part in principal amounts of \$5,000 or any multiple thereof, on February 15, 2030 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

*Mandatory Sinking Fund Redemption.* If two or more serial Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order and shall be described in the final Official Statement.

## Notice of Redemption and DTC Notices

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE AND THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

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

## Security

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from 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 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 the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

**Payment Record**

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

**Amendments**

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

**Defeasance**

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

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

**Sources and Uses of Funds**

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

**Sources**

Par Amount of Bonds	\$
[Net] Reoffering Premium	
Accrued Interest on Bonds	
<b>Total Sources of Funds</b>	\$ _____

**Uses**

Deposit to Construction Fund	\$
Costs of Issuance	
Underwriters' Discount	
Deposit to Interest and Sinking Fund	
<b>Total Uses of Funds</b>	\$ _____



## REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal or interest, or redemption price of the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order any registered owner may seek a writ of mandamus from a court of proper jurisdiction to compel the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court 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. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (see "THE BONDS – Authorization and Purpose" herein), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, beyond Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

## BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual Purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into

the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued.

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

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

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

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

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

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

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

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

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

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

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

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

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

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

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

#### **Initial Registration**

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

#### **Future Registration**

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's

request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

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

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

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

Neither the District nor the Paying Agent/Registrar are required to transfer or exchange any Bonds selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

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

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

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

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 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% 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 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, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATING" herein.

#### Valuation of the PSF and Guaranteed Bonds

##### Permanent School Fund Valuations

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

##### Permanent School Fund Guaranteed Bonds

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

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

<sup>(2)</sup> As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts 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.

Fiscal Year	School District Bonds			Charter District Bonds			Totals
	Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089		\$63,197,514,047	28	\$757,935,000	3,117	\$63,955,449,047
2016	3,244		67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253		72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249		77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 <sup>(2)</sup>	3,297		82,537,755,203	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 Amendment**

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

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

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

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

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

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

## Other Events and Disclosures

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

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

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

As of August 31, 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\\_State\\_ment\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_State_ment_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

## Annual Reports

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

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

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

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

## Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt

status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

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

### **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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

## **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

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

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and

operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

### **Possible Effects of Changes in Law on District Bonds**

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

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

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

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

### **Overview**

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

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

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

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

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the "2019 Legislation"). The 2019 Legislation orders a school district's M&O tax rate into two distinct parts: the "Tier One Tax Rate", which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response



to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding For School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement” herein.

### **State Compression Percentage**

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

### **Maximum Compressed Tax Rate**

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

### **Tier One Tax Rate**

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

### **Enrichment Tax Rate**

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

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

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

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

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

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

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

### **Tier One**

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student

attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

### ***Tier Two***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Possible Effects of Wealth Transfer Provisions on the District's Financial Condition**

For the 2019-20 fiscal year, the District's local yield per penny per student in weighted average daily attendance is less than state funding entitlement. Accordingly, the District has not been required to reduce its local revenue by one of the permitted wealth reduction options. As a district with wealth per student less than state funding entitlement, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a district required to reduce its local revenue to the permitted level.

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

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

### **AD VALOREM TAX PROCEDURES**

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

## **Valuation of Taxable Property**

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

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

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

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

## **State Mandated Homestead Exemptions**

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

## **Local Option Homestead Exemptions**

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

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

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

## **Personal Property**

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

## **Freeport Exemptions**

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

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

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

## **Other Exempt Property**

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

## **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

## **Tax Increment Reinvestment Zones**

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

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

## **Tax Limitation Agreements**

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

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

## **District and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

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

circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

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

## **TAX RATE LIMITATIONS**

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

A school district is authorized to levy M&O taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on April 27, 1974 pursuant to Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective County. Each Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the respective County.

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

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

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

The District's taxes are collected by the Collin County Tax Office.

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

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

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

The District has not granted the freeport exemption. The District has not taken action to tax goods-in-transit.

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

#### **EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2019 the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note L. Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

During the year ended June 30, 2019, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$300 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note K. Risk Management – Health Care Coverage" in the Financial Statements.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. Contribution requirements to TRS-Care are legally established each biennium by the Texas legislature. See "Note M. Defined Other Post-Employment Benefit Plans" in the Financial Statements.

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

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

#### **RATING**

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

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

#### **LEGAL MATTERS**

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except for the information under the subcaptions "Permanent School Fund Guarantee", "Payment Record," and "Sources and Uses of Funds" as to which no opinion is expressed), "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance with Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last two sentences of the first paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND



ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE,” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

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

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the “Code”), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel’s legal opinion appears in Appendix C hereto.

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

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

### **Tax Changes**

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

### **Ancillary Tax Consequences**

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

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

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

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

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax

consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

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

The purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

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

## **INVESTMENT POLICIES**

### **Investments**

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

### **Legal Investments**

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

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

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

### **Investment Policies**

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

State law requires the District's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

### **Current Investments**

As of May 30, 2020, the District had approximately \$14,786,747 (unaudited) invested in TexPool (which is a government investment pool that generally has the characteristics of a money-market mutual fund) and \$19,932,049 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have

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

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

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

### **FINANCIAL ADVISOR**

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

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

### **CONTINUING DISCLOSURE OF INFORMATION**

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

#### **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 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 Financial Statements becomes available.

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

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year, and the Financial Statements must be provided by June 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### **Notice of Certain Events**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on

debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; and (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or others similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

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

### **Availability of Information**

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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

### **Compliance with Prior Undertakings**

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

## **LITIGATION**

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

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

## **FORWARD LOOKING STATEMENTS**

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers,

suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## UNDERWRITING

The Underwriters have 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 the inside cover page hereof, less an Underwriters' discount of \$ \_\_\_\_\_, plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters 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 Underwriters.

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

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

## CONCLUDING STATEMENT

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

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

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

In the Bond Order, the Board authorized the Designated Financial Officer to approve, and in the Pricing Certificate, the Designated Financial Officer will approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement, or amendment thereto and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule.

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Designated Financial Officer  
Celina Independent School District

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

**CELINA INDEPENDENT SCHOOL DISTRICT**

**Financial Information**

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

2019/20 Total Valuation.....		\$ 3,454,206,423
Less Exemptions & Deductions <sup>(2)</sup> :		
State Homestead Exemption	\$ 70,147,453	
State Over-65 Exemption	7,889,502	
Disabled Exemption	11,047,222	
Veterans Exemption	983,572	
Freeport Exemption	3,451,308	
Pollution Control	2,451,172	
Productivity Loss	1,712,291,834	
Homestead Cap Loss	25,877,306	
	<u>\$ 1,834,139,369</u>	
2019/20 Net Taxable Valuation .....		\$ 1,620,067,054
2020/21 Preliminary Net Taxable Valuation <sup>(3)</sup> .....		\$ 1,976,762,317

(1) Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in the Official Statement.  
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$54,583,899 in 2019/20.  
 (3) Source: Preliminary values from the Collin, Grayson and Denton County Appraisal Districts as of April 2020. State law requires appraisal districts to provide certified tax rolls to taxing entities by July 25 of each year.

**VOTED GENERAL OBLIGATION DEBT**

Unlimited Tax Bonds Outstanding <sup>(1)</sup>		\$ 139,934,551
Less: The Refunded Bonds <sup>(2) (3)</sup>		(950,000)
Plus: The Refunding Bonds <sup>(2) (3)</sup>		950,000
Plus: The Bonds <sup>(2)</sup>		30,000,000
Total Unlimited Tax Bonds <sup>(1) (2) (3)</sup>		<u>169,934,551</u>
Less: Interest & Sinking Fund Balance (As of June 30, 2019) <sup>(4)</sup>		<u>(7,739,194)</u>
Net General Obligation Debt		\$ 162,195,357

Ratio of Net G.O. Debt to Net Taxable Valuation <sup>(5)</sup> 8.21%

2019 Population Estimate <sup>(6)</sup>	14,362
Per Capita Net Taxable Valuation	\$137,638
Per Capita Net G.O. Debt	\$11,293

(1) Excludes interest accreted on outstanding capital appreciation bonds.  
 (2) Preliminary, subject to change.  
 (3) Reflects the Series 2020 Refunding Bonds which are being sold in a separate transaction.  
 (4) Source: Celina ISD Audited Financial Statement.  
 (5) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2019" in Appendix D for more information relative to the District's long-term obligations other than unlimited tax bonds. Ratio calculated on basis of the preliminary 2020/21 tax roll figure shown above.  
 (6) Source: Municipal Advisory Council of Texas.

**PROPERTY TAX RATES AND COLLECTIONS**

Fiscal Year	Net Taxable Valuation	Tax Rate	% Collections <sup>(4)</sup>	
			Current <sup>(5)</sup>	Total <sup>(5)</sup>
2006/07	\$ 503,582,336 <sup>(1)</sup>	\$ 1.7499 <sup>(6)</sup>	96.04%	99.65%
2007/08	587,869,431 <sup>(1)</sup>	1.5190 <sup>(6)</sup>	96.12%	99.68%
2008/09	666,255,899 <sup>(1)</sup>	1.5400	96.91%	100.41%
2009/10	668,637,585 <sup>(1)</sup>	1.5400	97.08%	99.77%
2010/11	654,520,963 <sup>(1)</sup>	1.6400	97.17%	100.19%
2011/12	654,293,810 <sup>(1)</sup>	1.6400	97.21%	99.48%
2012/13	670,575,979 <sup>(1)</sup>	1.6400	97.87%	101.10%
2013/14	706,151,915 <sup>(1)</sup>	1.6400	97.99%	99.66%
2014/15	773,684,532 <sup>(1)</sup>	1.6400	98.33%	100.41%
2015/16	865,110,522 <sup>(1) (2)</sup>	1.6400	98.71%	100.27%
2016/17	1,014,683,232 <sup>(1) (2)</sup>	1.6400	98.49%	98.27%
2017/18	1,188,189,019 <sup>(1) (2)</sup>	1.6400	98.93%	100.42%
2018/19	1,403,151,221 <sup>(1) (2)</sup>	1.6400	98.75%	98.16%
2019/20	1,620,067,054 <sup>(1) (2)</sup>	1.5489 <sup>(7)</sup>	(In Process of Collection)	
2020/21	1,976,762,317 <sup>(2) (3)</sup>			

(1) Source: Comptroller of Public Accounts - Property Tax Division. See the Assessed Valuation section in this Appendix for additional information.  
 (2) The passage of a Texas constitutional amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.  
 (3) Source: Preliminary values from the Collin, Grayson and Denton County Appraisal Districts as of April 2020.  
 (4) Source: Celina ISD Audited Financial Statements.  
 (5) Excludes penalties and interest.  
 (6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.  
 (7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in Official Statement.

**TAX RATE DISTRIBUTION <sup>(1)</sup>**

	2015/16	2016/17	2017/18	2018/19	2019/20 <sup>(2)</sup>
Maintenance & Operations	\$1.1400	\$1.1400	\$1.1400	\$1.1400	\$1.0489
Debt Service	\$0.5000	\$0.5000	\$0.5000	\$0.5000	\$0.5000
<b>Total Tax Rate</b>	<b>\$1.6400</b>	<b>\$1.6400</b>	<b>\$1.6400</b>	<b>\$1.6400</b>	<b>\$1.5489</b>

(1) The District held a rollback election on September 4, 2010 in which the voters approved a tax rate that exceeded the District's "rollback tax rate" by 10 cents per hundred dollar valuation (see "TAX RATE LIMITATIONS").

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

**VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding <sup>(1)</sup>	Ratio Debt to A.V. <sup>(2)</sup>
2006/07	\$ 503,582,336	\$ 51,302,991	10.19%
2007/08	587,869,431	60,834,800	10.35%
2008/09	666,255,899	60,370,876	9.06%
2009/10	668,637,585	59,441,532	8.89%
2010/11	654,520,963	58,755,668	8.98%
2011/12	654,293,810	57,847,425	8.84%
2012/13	670,575,979	56,701,695	8.46%
2013/14	706,151,915	55,404,169	7.85%
2014/15	773,684,532	54,029,047	6.98%
2015/16	865,110,522	71,605,437	8.28%
2016/17	1,014,683,232	84,589,816	8.34%
2017/18	1,188,189,019	106,045,929	8.93%
2018/19	1,403,151,221	139,934,551	9.97%
2019/20	1,620,067,054	167,675,000 <sup>(3)</sup>	10.35%
2020/21	1,976,762,317	165,135,000 <sup>(3)</sup>	8.35%

(1) Excludes interest accreted on outstanding capital appreciation bonds.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2019" in Appendix D for more information.

(3) Gross general obligation debt. Includes the Bonds and excludes the Refunded Bonds. Includes the School Building Bonds. Preliminary, subject to change.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Celina, City of	\$ 61,295,877	66.67%	\$ 40,865,961
Collin Co	333,150,000	0.95%	3,164,925
Collin Co CCD	542,110,000	0.95%	5,150,045
Denton Co	640,015,000	0.03%	192,005
Grayson Co	8,555,000	** (1)	-
Grayson Co JCD	23,315,000	** (1)	-
<b>Total Overlapping Debt <sup>(2)</sup></b>			<b>\$ 49,372,935</b>
<b>Celina Independent School District <sup>(3) (4)</sup></b>			<b>162,195,357</b>
<b>Total Direct &amp; Overlapping Debt</b>			<b>\$ 211,568,292</b>
<b>Ratio of Net Direct &amp; Overlapping Debt to Net Taxable Valuation</b>		<b>10.70%</b>	
<b>Per Capita Direct &amp; Overlapping Debt</b>		<b>\$14,731</b>	

(1) Less than 0.01%.

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

(3) Net general obligation debt includes the Bonds. Preliminary, subject to change.

(4) Excludes interest accreted on capital appreciation bonds.

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



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

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy-Mid Tex Pipeline	Pipeline	\$ 23,350,228	1.44%
Oncor Electric Delivery Co.	Electric Utility	11,577,566	0.71%
Enterprise Texas Pipeline	Pipeline	9,800,097	0.60%
TXI Operations LP	Commercial	8,399,361	0.52%
Grayson Collin Electric Co-Op	Electric Utility	7,786,857	0.48%
Burlington Northern Santa Fe & Co	Railroad	6,782,861	0.42%
Celina Town Center Ltd	Real Estate	6,739,400	0.42%
Tollway/Outer Loop LP	Commercial	6,674,286	0.41%
CADG Ownsby Farms LLC	Farm	6,589,992	0.41%
Chemtrade Sulfate Chemicals Inc.	Chemicals	6,208,744	0.38%
		<u>\$ 93,909,392</u>	<u>5.80%</u>

**2018/19 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy-Mid Tex Pipeline	Pipeline	\$ 20,937,234	1.49%
CADG Ownsby Farms LLC	Farm	10,960,945	0.78%
Oncor Electric Delivery Co.	Electric Utility	9,918,154	0.71%
Enterprise Texas Pipeline	Pipeline	9,598,439	0.68%
W/J CR 55 LP	Developer	8,666,585	0.62%
TXI Operations LP	Commercial	6,690,027	0.48%
Celina Town Center Ltd	Real Estate	6,643,593	0.47%
Grayson Collin Electric Co-Op	Electric Utility	6,603,446	0.47%
Burlington Northern Santa Fe & Co	Railroad	6,497,232	0.46%
Chemtrade Sulfate Chemicals Inc.	Chemicals	6,233,918	0.44%
		<u>\$ 92,749,573</u>	<u>6.61%</u>

**2017/18 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy-Mid Tex Pipeline	Pipeline	\$ 12,911,826	1.09%
Oncor Electric Delivery Co.	Electric Utility	11,188,784	0.94%
Enterprise Texas Pipeline	Pipeline	10,531,933	0.89%
Celina Town Center Ltd	Real Estate	6,325,301	0.53%
Burlington Northern Santa Fe & Co	Railroad	5,813,780	0.49%
CADG Ownsby Farms LLC	Farm	5,629,710	0.47%
Chemtrade Sulfate Chemicals Inc.	Chemicals	5,428,036	0.46%
Energy Transfer Fuel LP	Pipeline	5,350,950	0.45%
Bluewood Phase 1 LLC	Commercial	5,238,480	0.44%
TXI Operations LP	Commercial	4,874,903	0.41%
		<u>\$ 73,293,703</u>	<u>6.17%</u>

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

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY <sup>(1)</sup>**

<u>Category</u>	<u>2019/20</u>	<u>% of Total</u>	<u>2018/19</u>	<u>% of Total</u>	<u>2017/18</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 1,021,476,672	29.57%	\$ 896,902,998	28.24%	\$ 796,987,409	28.87%
Real, Residential, Multi-Family	6,018,426	0.17%	5,794,924	0.18%	5,561,634	0.20%
Real, Vacant Lots/Tracts	33,535,092	0.97%	31,567,258	0.99%	27,544,939	1.00%
Real, Qualified Land & Improvements	1,727,231,632	50.00%	1,663,785,357	52.39%	1,444,955,982	52.35%
Real, Non-Qualified Land & Improvements	356,263,019	10.31%	326,737,084	10.29%	284,586,222	10.31%
Real, Commercial & Industrial	111,085,850	3.22%	93,558,314	2.95%	79,677,905	2.89%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	75,663,681	2.19%	67,044,500	2.11%	53,269,598	1.93%
Tangible Personal, Commercial	49,010,125	1.42%	41,486,270	1.31%	39,786,896	1.44%
Tangible Personal, Industrial	31,940	0.00%	385,070	0.01%	350,060	0.01%
Tangible Personal, Mobile Homes & Other	905,751	0.03%	858,127	0.03%	680,997	0.02%
Tangible Personal, Residential Inventory	72,984,235	2.11%	47,898,722	1.51%	26,781,404	0.97%
Tangible Personal, Special Inventory	-	0.00%	1,775	0.00%	-	0.00%
<b>Total Appraised Value</b>	<b>\$ 3,454,206,423</b>	<b>100.00%</b>	<b>\$ 3,176,020,399</b>	<b>100.00%</b>	<b>\$ 2,760,183,046</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 25,877,306		\$ 39,738,078		\$ 66,857,479	
Productivity Loss	1,712,291,834		1,648,514,913		1,429,700,833	
Exemptions	<u>95,970,229</u> <sup>(2)</sup>		<u>84,616,187</u> <sup>(2)</sup>		<u>75,435,715</u> <sup>(2)</sup>	
Total Exemptions/Deductions <sup>(3)</sup>	<u>\$ 1,834,139,369</u>		<u>\$ 1,772,869,178</u>		<u>\$ 1,571,994,027</u>	
<b>Net Taxable Assessed Valuation</b>	<u><b>\$ 1,620,067,054</b></u>		<u><b>\$ 1,403,151,221</b></u>		<u><b>\$ 1,188,189,019</b></u>	

<u>Category</u>	<u>2016/17</u>	<u>% of Total</u>	<u>2015/16</u>	<u>% of Total</u>	<u>2014/15</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 659,523,448	27.13%	\$ 532,530,564	24.99%	\$ 443,924,927	22.65%
Real, Residential, Multi-Family	4,059,391	0.17%	4,107,838	0.19%	3,851,836	0.20%
Real, Vacant Lots/Tracts	23,148,403	0.95%	23,631,519	1.11%	22,761,955	1.16%
Real, Qualified Land & Improvements	1,328,343,454	54.64%	1,203,698,409	56.48%	1,156,359,407	59.01%
Real, Non-Qualified Land & Improvements	241,039,652	9.91%	208,166,633	9.77%	188,066,761	9.60%
Real, Commercial & Industrial	74,899,641	3.08%	64,708,990	3.04%	56,857,182	2.90%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	45,946,148	1.89%	49,580,037	2.33%	45,883,347	2.34%
Tangible Personal, Commercial	35,694,740	1.47%	31,229,830	1.47%	27,556,020	1.41%
Tangible Personal, Industrial	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes & Other	535,107	0.02%	530,068	0.02%	455,919	0.02%
Tangible Personal, Residential Inventory	17,919,939	0.74%	13,155,590	0.62%	14,001,300	0.71%
Tangible Personal, Special Inventory	-	0.00%	-	0.00%	-	0.00%
<b>Total Appraised Value</b>	<b>\$ 2,431,109,923</b>	<b>100.00%</b>	<b>\$ 2,131,339,478</b>	<b>100.00%</b>	<b>\$ 1,959,718,654</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 32,121,933		\$ 12,353,464		\$ 2,600,902	
Productivity Loss	1,314,137,364		1,189,893,783		1,142,836,233	
Exemptions	<u>70,167,394</u> <sup>(2)</sup>		<u>63,981,709</u> <sup>(2)</sup>		<u>40,596,987</u>	
Total Exemptions/Deductions <sup>(3)</sup>	<u>\$ 1,416,426,691</u>		<u>\$ 1,266,228,956</u>		<u>\$ 1,186,034,122</u>	
<b>Net Taxable Assessed Valuation</b>	<u><b>\$ 1,014,683,232</b></u>		<u><b>\$ 865,110,522</b></u>		<u><b>\$ 773,684,532</b></u>	

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

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

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

**PRINCIPAL REPAYMENT SCHEDULE <sup>(1)</sup>**

Fiscal Year Ending 8/31	Outstanding Bonds <sup>(2)</sup>	Less: The Refunded Bonds <sup>(3) (4)</sup>	Plus: The Refunding Bonds <sup>(3) (4)</sup>	Plus: The Bonds <sup>(3)</sup>	Total <sup>(2) (3) (4)</sup>	Bonds Unpaid At Year End	Percent of Principal Retired
2020	\$ 2,259,550.75	\$ -	\$ -	\$ -	\$ 2,259,550.75	\$ 167,675,000.00	1.33%
2021	2,535,000.00	120,000.00	125,000.00	-	2,540,000.00	165,135,000.00	2.82%
2022	3,395,000.00	125,000.00	130,000.00	-	3,400,000.00	161,735,000.00	4.83%
2023	3,555,000.00	130,000.00	135,000.00	80,000.00	3,640,000.00	158,095,000.00	6.97%
2024	3,715,000.00	135,000.00	135,000.00	150,000.00	3,865,000.00	154,230,000.00	9.24%
2025	3,880,000.00	140,000.00	140,000.00	270,000.00	4,150,000.00	150,080,000.00	11.68%
2026	4,045,000.00	145,000.00	140,000.00	280,000.00	4,320,000.00	145,760,000.00	14.23%
2027	4,215,000.00	155,000.00	145,000.00	290,000.00	4,495,000.00	141,265,000.00	16.87%
2028	4,395,000.00			290,000.00	4,685,000.00	136,580,000.00	19.63%
2029	4,575,000.00			295,000.00	4,870,000.00	131,710,000.00	22.49%
2030	4,760,000.00			305,000.00	5,065,000.00	126,645,000.00	25.47%
2031	4,945,000.00			315,000.00	5,260,000.00	121,385,000.00	28.57%
2032	5,150,000.00			320,000.00	5,470,000.00	115,915,000.00	31.79%
2033	5,340,000.00			330,000.00	5,670,000.00	110,245,000.00	35.13%
2034	5,540,000.00			340,000.00	5,880,000.00	104,365,000.00	38.59%
2035	5,725,000.00			350,000.00	6,075,000.00	98,290,000.00	42.16%
2036	5,915,000.00			365,000.00	6,280,000.00	92,010,000.00	45.86%
2037	6,125,000.00			370,000.00	6,495,000.00	85,515,000.00	49.68%
2038	5,700,000.00			700,000.00	6,400,000.00	79,115,000.00	53.44%
2039	5,480,000.00			930,000.00	6,410,000.00	72,705,000.00	57.22%
2040	5,685,000.00			955,000.00	6,640,000.00	66,065,000.00	61.12%
2041	5,900,000.00			985,000.00	6,885,000.00	59,180,000.00	65.17%
2042	4,350,000.00			1,905,000.00	6,255,000.00	52,925,000.00	68.86%
2043	4,535,000.00			1,960,000.00	6,495,000.00	46,430,000.00	72.68%
2044	4,720,000.00			2,025,000.00	6,745,000.00	39,685,000.00	76.65%
2045	4,925,000.00			2,080,000.00	7,005,000.00	32,680,000.00	80.77%
2046	5,125,000.00			2,145,000.00	7,270,000.00	25,410,000.00	85.05%
2047	4,765,000.00			2,495,000.00	7,260,000.00	18,150,000.00	89.32%
2048	4,975,000.00			2,570,000.00	7,545,000.00	10,605,000.00	93.76%
2049	3,705,000.00			3,400,000.00	7,105,000.00	3,500,000.00	97.94%
2050	-			3,500,000.00	3,500,000.00	-	100.00%
Total	<u>\$ 139,934,550.75</u>	<u>\$ 950,000.00</u>	<u>\$ 950,000.00</u>	<u>\$ 30,000,000.00</u>	<u>\$ 169,934,550.75</u>		

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) Excludes the accreted value of outstanding capital appreciation bonds.

(3) Preliminary, subject to change.

(4) Reflects the Series 2020 Refunding Bonds which are being sold in a separate transaction.

**OTHER OBLIGATIONS - MAINTENANCE TAX NOTES AND SCHOOL BUS LOAN <sup>(1)</sup>**

Fiscal Year Ending 6/30	Principal	Interest	Total
2020	\$ 186,815	\$ 17,047	\$ 203,862
2021	192,607	11,255	203,862
2022	198,533	5,329	203,862
2023	<u>50,578</u>	<u>388</u>	<u>50,966</u>
Total	<u>\$ 628,533</u>	<u>\$ 34,019</u>	<u>\$ 662,552</u>

(1) See "NOTE G TO THE FINANCIAL STATEMENTS" from the "Audited Financial Report Fiscal Year Ended June 30, 2019" or more information relative to the District's outstanding obligations.

**DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**

Fiscal Year Ending 8/31	Outstanding Debt Service <sup>(2)</sup>	Less:	Plus:	Plus:			Combined Total <sup>(2) (3) (5)</sup>
		Refunded Bonds <sup>(3) (4)</sup>	Refunding Bonds <sup>(3) (4)</sup>	The Bonds <sup>(3)</sup>			
				Principal	Interest	Total	
2020	\$ 8,416,373.91	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,416,373.91
2021	8,355,887.52	156,800.00	146,925.87	-	975,000.00	975,000.00	9,321,013.39
2022	8,746,450.02	158,200.00	147,531.26	-	900,000.00	900,000.00	9,635,781.28
2023	8,752,912.52	158,200.00	149,768.76	80,000.00	900,000.00	980,000.00	9,724,481.28
2024	8,752,162.52	158,000.00	146,900.00	150,000.00	897,600.00	1,047,600.00	9,788,662.52
2025	8,754,875.02	157,600.00	149,031.26	270,000.00	893,100.00	1,163,100.00	9,909,406.28
2026	8,753,150.02	157,600.00	146,056.26	280,000.00	885,000.00	1,165,000.00	9,906,606.28
2027	8,751,850.02	161,200.00	148,081.26	290,000.00	876,600.00	1,166,600.00	9,905,331.28
2028	8,752,462.52			290,000.00	867,900.00	1,157,900.00	9,910,362.52
2029	8,754,875.02			295,000.00	859,200.00	1,154,200.00	9,909,075.02
2030	8,753,337.52			305,000.00	850,350.00	1,155,350.00	9,908,687.52
2031	8,752,425.02			315,000.00	841,200.00	1,156,200.00	9,908,625.02
2032	8,757,337.52			320,000.00	831,750.00	1,151,750.00	9,909,087.52
2033	8,754,975.02			330,000.00	822,150.00	1,152,150.00	9,907,125.02
2034	8,754,275.02			340,000.00	812,250.00	1,152,250.00	9,906,525.02
2035	8,755,150.02			350,000.00	802,050.00	1,152,050.00	9,907,200.02
2036	8,748,706.26			365,000.00	791,550.00	1,156,550.00	9,905,256.26
2037	8,754,931.26			370,000.00	780,600.00	1,150,600.00	9,905,531.26
2038	8,113,681.26			700,000.00	769,500.00	1,469,500.00	9,583,181.26
2039	7,696,743.76			930,000.00	748,500.00	1,678,500.00	9,375,243.76
2040	7,696,062.50			955,000.00	720,600.00	1,675,600.00	9,371,662.50
2041	7,694,375.00			985,000.00	691,950.00	1,676,950.00	9,371,325.00
2042	5,919,150.00			1,905,000.00	662,400.00	2,567,400.00	8,486,550.00
2043	5,922,050.00			1,960,000.00	605,250.00	2,565,250.00	8,487,300.00
2044	5,917,000.00			2,025,000.00	546,450.00	2,571,450.00	8,488,450.00
2045	5,924,000.00			2,080,000.00	485,700.00	2,565,700.00	8,489,700.00
2046	5,917,150.00			2,145,000.00	423,300.00	2,568,300.00	8,485,450.00
2047	5,341,650.00			2,495,000.00	358,950.00	2,853,950.00	8,195,600.00
2048	5,342,100.00			2,570,000.00	284,100.00	2,854,100.00	8,196,200.00
2049	3,853,200.00			3,400,000.00	207,000.00	3,607,000.00	7,460,200.00
2050				3,500,000.00	105,000.00	3,605,000.00	3,605,000.00
	<u>\$ 232,159,299.25</u>	<u>\$ 1,107,600.00</u>	<u>\$ 1,034,294.67</u>	<u>\$ 30,000,000.00</u>	<u>\$ 21,195,000.00</u>	<u>\$ 51,195,000.00</u>	<u>\$ 283,280,993.92</u>

(1) Debt Service for the Bonds is illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.  
(2) Includes the accreted value of outstanding capital appreciation bonds.  
(3) Preliminary, subject to change.  
(4) Reflects the Series 2020 Refunding Bonds which are being sold in a separate transaction.  
(5) Based on its wealth per student, the District does not expect to receive any Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for debt service in 2019/20. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

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

Projected Maximum Debt Service Requirement <sup>(1)</sup>	\$ 9,910,362.52
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption <sup>(2)</sup>	74,289.00
Projected Net Debt Service Requirement	\$ 9,836,073.52
\$0.50774 Tax Rate @ 98% Collections Produces <sup>(3)</sup>	\$ 9,836,073.52
2020/21 Preliminary Certified Net Taxable Assessed Valuation	\$ 1,976,762,317

(1) Reflects the Series 2020 Refunding Bonds which are being sold in a separate transaction. Includes the Building Bonds. Preliminary, subject to change. Excludes the accreted value of outstanding capital appreciation bonds.  
(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2019/20, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.  
(3) The District has utilized State tier one funds to pass the Attorney General's 50-cent Test with respect to bonds issued for new construction purposes. As a result, the District must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the \$0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the \$0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts," "DEBT LIMITATIONS" and "TAX RATE LIMITATIONS."

**AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Bonds, the District will have \$530,000,000 of authorized but unissued unlimited ad valorem tax bonds from the May 4, 2019 bond election. The District may issue a portion of the remaining authorized but unissued bonds within the next twelve months. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

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

	Fiscal Year Ended June 30				
	2015	2016	2017	2018	2019
<b>Beginning Fund Balance</b>	<b>\$ 6,019,453</b>	<b>\$ 5,805,276</b>	<b>\$ 6,397,490</b>	<b>\$ 6,321,140</b>	<b>\$ 5,982,269</b>
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 9,548,564	\$ 11,082,826	\$ 12,977,480	\$ 14,588,336	\$ 17,912,919
State Program Revenues	9,409,814	10,411,540	10,050,790	9,735,532	9,620,856
Federal Sources & Other	85,659	200,316	74,644	91,040	108,260
<b>Total Revenues</b>	<b>\$ 19,044,037</b>	<b>\$ 21,694,682</b>	<b>\$ 23,102,914</b>	<b>\$ 24,414,908</b>	<b>\$ 27,642,035</b>
<b>Expenditures:</b>					
Instruction	\$ 9,741,589	\$ 11,002,419	\$ 11,913,130	\$ 13,376,771	\$ 13,876,567
Instructional Resources & Media Services	175,281	185,629	154,818	238,775	248,577
Curriculum & Instructional Staff Development	272,306	302,186	286,816	290,164	314,720
Instructional Leadership	67,654	81,132	55,418	58,680	59,637
School Leadership	1,388,084	1,526,902	1,584,327	1,745,927	1,790,497
Guidance, Counseling & Evaluation Services	440,343	471,795	498,864	713,813	735,425
Social Work Services	48,705	-	-	-	-
Health Services	205,431	187,066	230,371	272,366	266,304
Student (Pupil) Transportation	1,039,608	877,111	967,390	1,066,552	1,278,796
Cocurricular/Extracurricular Activities	1,162,097	1,376,856	1,415,546	1,241,483	1,310,582
General Administration	697,182	824,635	943,612	1,100,925	1,232,109
Plant Maintenance and Operations	2,269,281	2,435,048	2,600,258	2,911,526	2,894,162
Security and Monitoring Services	80,871	261,125	253,859	184,936	256,380
Data Processing Services	523,299	535,216	591,160	559,140	521,954
Debt Service - Principal on Long Term Debt	160,593	165,429	170,623	175,872	181,283
Debt Service - Interest on Long Term Debt	43,270	38,433	33,239	27,990	22,579
Facilities Acquisition and Construction	300,000	219,834	793,426	-	55,058
Payments to Fiscal Agent/Member Districts of SSA	398,103	389,009	445,578	472,069	509,333
Payments to Juvenile Justice Alternative Ed. Program	46,303	11,877	-	-	-
Other Intergovernmental Charges	77,695	87,228	102,732	119,436	137,987
<b>Total Expenditures</b>	<b>\$ 19,137,695</b>	<b>\$ 20,978,930</b>	<b>\$ 23,041,167</b>	<b>\$ 24,556,425</b>	<b>\$ 25,691,950</b>
Excess (Deficiency) of Revenues over Expenditures	\$ (93,658)	\$ 715,752	\$ 61,747	\$ (141,517)	\$ 1,950,085
<b>Other Resources and (Uses):</b>					
Sale of Real and Personal Property	\$ -	\$ 4,631	\$ 801	\$ -	\$ -
Operating Transfers Out	(120,519)	(128,169)	(138,898)	(197,354)	(135,179)
<b>Total Other Resources (Uses)</b>	<b>\$ (120,519)</b>	<b>\$ (123,538)</b>	<b>\$ (138,097)</b>	<b>\$ (197,354)</b>	<b>\$ (135,179)</b>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (214,177)	\$ 592,214	\$ (76,350)	\$ (338,871)	\$ 1,814,906
<b>Ending Fund Balance</b>	<b>\$ 5,805,276</b>	<b>\$ 6,397,490</b>	<b>\$ 6,321,140</b>	<b>\$ 5,982,269</b>	<b>\$ 7,797,175</b>

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

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

	Fiscal Year Ended June 30				
	2015	2016	2017	2018	2019
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 1,199,433	\$ 1,706,413	\$ 1,891,881	\$ 1,728,911	\$ 2,039,963
Operating Grants and Contributions	1,442,414	2,057,769	1,823,369	(2,562,831)	2,866,905
<b>General Revenues:</b>					
Property Taxes Levied for General Purposes	8,608,823	9,603,112	11,210,197	13,078,779	15,578,366
Property Taxes Levied for Debt Service	3,776,190	4,212,328	4,917,263	5,736,901	6,833,324
State Aid - Formula Grants	8,694,076	9,822,235	9,212,527	8,765,495	8,633,819
Grants and Contributions Not Restricted	88,129	202,939	78,030	141,687	268,139
Investment Earnings	39,738	109,864	220,665	161,173	591,405
Miscellaneous	234,129	886,591	863,288	424,667	1,920,130
Special Item - Gain on Asset Sale	-	4,631	801	-	-
<b>Total Revenue</b>	<b>\$ 24,082,932</b>	<b>\$ 28,605,882</b>	<b>\$ 30,218,021</b>	<b>\$ 27,474,782</b>	<b>\$ 38,732,051</b>
<b>Expenses:</b>					
Instruction	\$ 10,876,866	\$ 12,901,438	\$ 13,654,761	\$ 11,218,762	\$ 17,028,903
Instruction Resources & Media Services	192,856	212,486	176,599	196,839	298,797
Curriculum & Staff Development	307,143	331,405	312,740	218,756	365,340
Instructional Leadership	65,636	85,122	55,418	58,680	59,637
School Leadership	1,604,513	1,824,518	1,835,622	1,433,388	2,165,102
Guidance, Counseling & Evaluation Services	472,655	531,785	555,786	558,533	902,361
Social Work Services	47,961	-	-	-	-
Health Services	222,289	214,989	256,295	230,389	316,524
Student Transportation	987,902	1,063,790	1,182,774	980,281	1,507,799
Food Service	918,572	932,994	1,003,891	990,295	1,187,792
Cocurricular/Extracurricular Activities	1,258,234	1,549,767	1,557,855	1,115,619	1,634,041
General Administration	767,319	932,307	1,047,836	903,669	1,479,762
Plant Maintenance & Operations	2,481,716	2,712,132	2,852,082	2,758,809	3,353,172
Security and Monitoring Services	80,765	252,057	195,949	136,522	223,605
Data Processing Services	412,016	478,037	547,515	481,895	606,045
Interest on Long-term Debt	3,191,987	4,186,856	3,809,975	3,315,407	3,822,152
Bond Issuance Costs and Fees	181,750	279,325	155,790	161,875	5,825
Payments to Fiscal Agent/Member Districts of SSA	398,103	389,009	445,578	472,069	509,333
Payments to Juvenile Justice Alternative Ed. Program	46,303	11,877	-	-	-
Other Intergovernmental Charges	77,695	87,228	102,732	119,436	137,987
<b>Total Expenditures</b>	<b>\$ 24,592,281</b>	<b>\$ 28,977,122</b>	<b>\$ 29,749,198</b>	<b>\$ 25,351,224</b>	<b>\$ 35,604,177</b>
<b>Change in Net Assets</b>	<b>\$ (509,349)</b>	<b>\$ (371,240)</b>	<b>\$ 468,823</b>	<b>\$ 2,123,558</b>	<b>\$ 3,127,874</b>
<b>Beginning Net Assets</b>	<b>\$ 5,058,366</b>	<b>\$ 2,697,130</b>	<b>\$ 2,325,890</b>	<b>\$ 2,794,713</b>	<b>\$ (9,782,814)</b>
<b>Prior Period Adjustment</b>	<b>\$ (1,851,887) <sup>(2)</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (14,701,085) <sup>(3)</sup></b>	<b>\$ -</b>
<b>Ending Net Assets</b>	<b>\$ 2,697,130</b>	<b>\$ 2,325,890</b>	<b>\$ 2,794,713</b>	<b>\$ (9,782,814)</b>	<b>\$ (6,654,940)</b>

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

(2) The prior period adjustment for 2015 is the result of recording net pension liability in accordance with GASB 68.

(3) The prior period adjustment for 2018 is the result of the implementation of GASB 75.

**APPENDIX B**

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

**CELINA INDEPENDENT SCHOOL DISTRICT**

**General and Economic Information**

Celina Independent School District (the "District") is located in Collin County with portions extending slightly into eastern Denton County and southern Grayson County. The District includes the City of Celina, a commercial center located north of Dallas on State Highway 289. The District's current population is approximately 14,362.

Collin County (the "County") was created in 1846 and is located in Northeast Texas immediately north and adjacent to Dallas County and approximately 15 miles from downtown Dallas.

Source: *Texas Municipal Report for Celina ISD and Collin County.*

**Enrollment Statistics**

<u>Year Ending</u>	<u>Enrollment</u>
2008	1,720
2009	1,846
2010	1,901
2011	1,963
2012	2,016
2013	1,999
2014	2,044
2015	2,176
2016	2,408
2017	2,429
2018	2,576
2019	2,722
2020	2,832

**District Staff**

Teachers	190
Auxiliary Personnel	87
Teachers' Aides & Secretaries	73
Administrators	22
Other	<u>22</u>
Total	394

**Facilities**

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Celina Primary School	EE-K	261	400	1988	1998/2000
Celina Elementary School	1-5	559	600	2003	
O'Dell Elementary School	1-5	493	750	2017	
Celina Sixth Grade Center	6	206	400	1977	1998/2003
Celina Junior High School	7-8	462	600	1998	2003
Celina High School	9-12	851	1,500	2008	2009/2018

**Principal Employers within the District**

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Celina ISD	Education	394
Fini Enterprises, Inc.	Industrial	67
Brookshires	Grocery Store	45
City of Celina	Government	41
Dickerson Construction	Construction	31
Independent Bank	Financial Institution	20
Celina Ready-Mix Concrete	Concrete	16
Texas Star Bank	Banking, Investments	10

**Unemployment Rates**

	<u>April 2018</u>	<u>April 2019</u>	<u>April 2020</u>
Collin County	3.1%	2.7%	12.2%
State of Texas	3.7%	3.0%	13.0%

Source: *Texas Workforce Commission.*



**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**



Norton Rose Fulbright US LLP  
2200 Ross Avenue, Suite 3600  
Dallas, Texas 75201-7932  
United States

Tel +1 214 855 8000  
Fax +1 214 855 8200  
nortonrosefulbright.com

[Delivery Date]

IN REGARD to the authorization and issuance of the "Celina Independent School District Unlimited Tax School Building Bonds, Series 2020", dated July 15, 2020, in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds"), we have examined into their issuance by the Celina Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof for any one stated maturity. The Bonds mature on August 15 in each of the years specified in the pricing certificate (the "Pricing Certificate") executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the "Order" and, jointly with the Pricing Certificate, the "Bond Order"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Order and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "Celina Independent School District Unlimited Tax School Building Bonds, Series 2020,"  
dated July 15, 2020

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Bond Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX D**

**AUDITED FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2019**

**CELINA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2019**

CELINA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2019

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CERTIFICATE OF BOARD

Celina Independent School District  
Name of School District

Collin  
County

043-903  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved \_\_\_\_\_ disapproved for the year ended June 30, 2019 at a meeting of the Board of Trustees of such school district on the 18th day of November, 2019.

*/s/ Todd Snyder*

*/s/ Kelly Juergens*

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

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

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

***Morgan, Davis & Company, P.C.***  
Post Office Box 8158  
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information  
and Other Information**

**Independent Auditor's Report**

Celina Independent School District  
205 South Colorado  
Celina, Texas 75009

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Celina Independent School District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Celina Independent School District as of June 30, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information:***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and the Schedules contained in Exhibits G-1, G-2, G-3, G-4, & G-5 on pages 51-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical



context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 Celina Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2 on pages 62-69 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about 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 Reporting Required by *Government Auditing Standard***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2019 on our consideration of Celina Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Celina Independent School District's internal control over financial reporting and compliance.

*/s/ Morgan, Davis & Company, P.C.*

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Morgan, Davis & Company, P.C.  
Greenville, Texas

November 10, 2019

CELINA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019

In this section of the Annual Financial and Compliance Report, we, the administrators of Celina Independent School District, discuss and analyze the District's financial performance for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net position increased by \$3,127,874 as a result of this year's operations.
- The District's liabilities exceeded its assets at the close of the most recent fiscal year by \$6,654,940 which represents the District's total combined net position. Of this amount, \$(11,859,762) (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of June 30, 2019, the District's governmental funds reported a combined fund balance of \$23,487,448 compared to \$38,847,602 for the last fiscal year. Included in this combined fund balance is unspent bond proceeds of \$7,639,719 in the Bond Construction Funds. The General Fund reported a fund balance of \$7,797,175 this fiscal year compared to \$5,982,269 the last fiscal year.
- The District's total tax rate for the 2018-2019 school year was \$ 1.64 with \$ 1.14 for maintenance & operation and \$ 0.50 for debt service.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). 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 (starting on page 14) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) 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 T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 12. Its 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 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 the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial 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.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

- Governmental activities—All of 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.

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

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

The fund financial statements begin on page 14 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 ESEA Title 1 Part A 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. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of 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.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

## The District as Trustee

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

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. 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

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$(9,782,814) last year to \$(6,654,940) at June 30, 2019. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$(13,115,049) last year to \$(11,859,762) at June 30, 2019.

Changes in net position of the District's governmental activities were a \$2,123,558 increase last year compared to a \$3,127,874 increase at June 30, 2019.

**Table I**  
**Celina Independent School District**  
**NET POSITION**

	Governmental Activities 6/30/2019	Governmental Activities 6/30/2018	Net Change
Current and other assets	\$29,339,283	\$41,763,707	(\$12,424,424)
Capital assets	102,231,801	85,451,384	16,780,417
Other assets	0	97,861	(97,861)
Total assets	<u>\$131,571,084</u>	<u>\$127,312,952</u>	<u>\$4,258,132</u>
Deferred Outflows	\$6,504,760	\$2,246,142	\$4,258,618
Current and other liabilities	\$6,628,820	\$4,169,365	\$2,459,455
Long-term liabilities	\$116,210,246	\$118,471,960	(2,261,714)
Net Pension Liability (District's Share)	\$7,930,152	\$4,182,903	3,747,249
Net OPEB Liability (District's Share)	10,279,431	8,374,786	1,904,645
Total liabilities	<u>\$141,048,649</u>	<u>\$135,199,014</u>	<u>\$197,741</u>
Deferred Inflows	\$3,685,135	\$4,142,894	(\$457,759)
Net Position:			
Net Investment in Capital Assets	(\$3,096,239)	(\$3,057,839)	(\$38,400)
Restricted	8,301,061	6,390,074	1,910,987
Unrestricted	(11,859,762)	(13,115,049)	1,255,287
Total net position	<u>(\$6,654,940)</u>	<u>(\$9,782,814)</u>	<u>\$3,127,874</u>

**Table II**  
**Celina Independent School District**  
**CHANGES IN NET POSITION**

	Governmental Activities Yr Ended 6/30/2019	Governmental Activities Yr Ended 6/30/2018	Net Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$2,039,963	\$1,728,911	\$311,052
Operating grants and contributions	2,866,905	(2,562,831)	5,429,736
<b>General Revenues:</b>			
Maintenance and operations taxes	15,578,366	13,078,779	2,499,587
Debt service taxes	6,833,324	5,736,901	1,096,423
State aid - formula grants	8,633,819	8,765,495	(131,676)
Grants & Contributions not restricted to specific functions	268,139	141,687	126,452
Investment Earnings	591,405	161,173	430,232
Miscellaneous	1,920,130	424,667	1,495,463
<b>Total Revenue</b>	<b>\$38,732,051</b>	<b>\$27,474,782</b>	<b>\$11,257,269</b>
<b>Expenses:</b>			
Instruction, curriculum and media services	\$17,693,040	\$11,634,357	\$6,058,683
Instructional and school leadership	2,224,739	1,492,068	732,671
Student support services	2,726,684	1,769,203	957,481
Child nutrition	1,187,792	990,295	197,497
Co curricular activities	1,634,041	1,115,619	518,422
General administration	1,479,762	903,669	576,093
Plant maintenance, security & data processing	4,182,822	3,377,226	805,596
Debt services	3,827,977	3,477,282	350,695
Payments to fiscal agents	509,333	472,069	37,264
Other intergovernmental charges	137,987	119,436	18,551
<b>Total Expenses</b>	<b>\$35,604,177</b>	<b>\$25,351,224</b>	<b>\$10,252,953</b>
<b>Increase in net position before transfers and special items</b>	<b>\$3,127,874</b>	<b>\$2,123,558</b>	<b>\$1,004,316</b>
Transfers	0	0	0
Special Items - Gain on Asset Sale	0	0	0
Prior Period Adjustment - Implementation of GASB 75	0	(14,701,085)	14,701,085
Net position at Beginning of Fiscal Year	(9,782,814)	2,794,713	(12,577,527)
Net position at End of Fiscal Year	<b>(\$6,654,940)</b>	<b>(\$9,782,814)</b>	<b>\$3,127,874</b>

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$23,487,448 compared to \$38,847,602 for the last fiscal year. The District's General Fund reported a fund balance increase of \$1,814,906, ending the year with \$7,797,175. The District's Special Revenue Funds reported a fund balance increase of \$286,710, ending the year with \$315,260. The District's Debt Service Fund reported a fund balance increase of \$1,607,251, ending the year with \$7,739,194. The District's Capital Projects Fund reported a fund balance decrease of \$55,700, ending the year with \$109,578. The District's Bond Construction Funds reported a fund balance decrease of \$19,013,321, ending the year with \$7,526,241.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in June 2018) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

During the year ended June 30, 2019, the District invested \$20,142,759 in capital assets, consisting of construction in progress, miscellaneous facility improvements, various equipment & furnishings, and vehicles & school buses.

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning</u>			<u>Ending Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Land	\$5,020,682	\$0	\$0	\$5,020,682
Buildings & Improvements	98,793,359	48,288	0	98,841,647
Equipment	4,288,369	1,235,421	0	5,523,790
Vehicles	3,198,375	394,628	0	3,593,003
Construction in Progress	801,258	18,464,422	0	19,265,680
Totals at Historical Cost	<u>112,102,043</u>	<u>20,142,759</u>	<u>0</u>	<u>132,244,802</u>
Less accumulated depreciation for:				
Buildings & Improvements	(22,614,158)	(2,584,454)	0	(25,198,612)
Equipment	(1,982,527)	(468,208)	0	(2,450,735)
Vehicles	(2,053,974)	(312,680)	0	(2,366,654)
Total accumulated depreciation	<u>(26,650,659)</u>	<u>(3,365,342)</u>	<u>0</u>	<u>(30,016,001)</u>
Capital Assets, Net	<u>\$85,451,384</u>	<u>\$16,777,417</u>	<u>\$0</u>	<u>\$102,228,801</u>

**Debt:**

At year-end June 30, 2019, the District had \$115,581,713 outstanding in bonds compared to \$117,662,145 last year. The District had \$628,533 outstanding in loans compared to \$809,815 last year. During the fiscal year, the District had no new borrowings.

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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2019. Amounts available for appropriation in the General Fund budget are \$2,968,642. The District has added no major new programs or initiatives to the 2019 budget.

**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 Celina Independent School District, 205 South Colorado, Celina, Texas.

## BASIC FINANCIAL STATEMENTS

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2019

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 12,179,202
1120 Current Investments	13,129,562
1220 Property Taxes - Delinquent	983,523
1230 Allowance for Uncollectible Taxes	(12,311)
1240 Due from Other Governments	3,050,779
1410 Prepayments	8,528
Capital Assets:	
1510 Land	5,020,682
1520 Buildings, Net	73,646,035
1530 Equipment, Net	3,073,055
1540 Vehicles, Net	1,226,349
1580 Construction in Progress	19,265,680
1000 Total Assets	131,571,084
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS Pension	4,896,805
1706 Deferred Outflow Related to TRS OPEB	1,610,955
1700 Total Deferred Outflows of Resources	6,507,760
<b>LIABILITIES</b>	
2110 Accounts Payable	1,480,341
2140 Interest Payable	1,876,774
2150 Payroll Deductions and Withholdings	1,609
2160 Accrued Wages Payable	1,891,980
2200 Accrued Expenses	1,215,718
2300 Unearned Revenue	162,398
Noncurrent Liabilities:	
2501 Due Within One Year	2,058,194
2502 Due in More Than One Year	114,152,052
2540 Net Pension Liability (District's Share)	7,930,152
2545 Net OPEB Liability (District's Share)	10,279,431
2000 Total Liabilities	141,048,649
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	434,531
2606 Deferred Inflow Related to TRS OPEB	3,250,604
2600 Total Deferred Inflows of Resources	3,685,135
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	(3,096,239)
3820 Restricted for Federal and State Programs	58
3850 Restricted for Debt Service	7,985,801
3870 Restricted for Campus Activities	315,202
3900 Unrestricted	(11,859,762)
3000 Total Net Position	\$ (6,654,940)

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



CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 17,028,903	\$ 1,003,122	\$ 1,641,825	\$ (14,383,956)
12 Instructional Resources and Media Services	298,797	-	23,893	(274,904)
13 Curriculum and Instructional Staff Development	365,340	-	18,322	(347,018)
21 Instructional Leadership	59,637	-	4,719	(54,918)
23 School Leadership	2,165,102	-	174,327	(1,990,775)
31 Guidance, Counseling and Evaluation Services	902,361	-	67,019	(835,342)
33 Health Services	316,524	-	26,643	(289,881)
34 Student (Pupil) Transportation	1,507,799	-	92,635	(1,415,164)
35 Food Services	1,187,792	538,410	472,694	(176,688)
36 Extracurricular Activities	1,634,041	470,715	55,841	(1,107,485)
41 General Administration	1,479,762	-	86,956	(1,392,806)
51 Facilities Maintenance and Operations	3,353,172	27,716	156,623	(3,168,833)
52 Security and Monitoring Services	223,605	-	13,335	(210,270)
53 Data Processing Services	606,045	-	32,073	(573,972)
72 Debt Service - Interest on Long-Term Debt	3,822,152	-	-	(3,822,152)
73 Debt Service - Bond Issuance Cost and Fees	5,825	-	-	(5,825)
93 Payments Related to Shared Services Arrangements	509,333	-	-	(509,333)
99 Other Intergovernmental Charges	137,987	-	-	(137,987)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 35,604,177</u>	<u>\$ 2,039,963</u>	<u>\$ 2,866,905</u>	<u>(30,697,309)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			15,578,366
DT	Property Taxes, Levied for Debt Service			6,833,324
SF	State Aid - Formula Grants			8,633,819
GC	Grants and Contributions not Restricted			268,139
IE	Investment Earnings			591,405
MI	Miscellaneous Local and Intermediate Revenue			1,920,130
TR	Total General Revenues			<u>33,825,183</u>
CN	Change in Net Position			3,127,874
NB	Net Position - Beginning			<u>(9,782,814)</u>
NE	Net Position--Ending			<u>\$ (6,654,940)</u>

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

CELINA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const Series 2018
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 1,721,071	\$ 544,969	\$ 9,294,025
1120 Investments - Current	5,943,312	7,186,250	-
1220 Property Taxes - Delinquent	682,856	300,667	-
1230 Allowance for Uncollectible Taxes	(8,548)	(3,763)	-
1240 Due from Other Governments	2,947,947	7,975	-
1410 Prepayments	8,528	-	-
1000 Total Assets	<u>\$ 11,295,166</u>	<u>\$ 8,036,098</u>	<u>\$ 9,294,025</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 537,957	\$ -	\$ 845,869
2150 Payroll Deductions and Withholdings Payable	1,609	-	-
2160 Accrued Wages Payable	1,823,953	-	-
2170 Due to Other Funds	298,966	-	-
2200 Accrued Expenditures	161,198	-	1,037,870
2300 Unearned Revenue	112,883	49,515	-
2000 Total Liabilities	<u>2,936,566</u>	<u>49,515</u>	<u>1,883,739</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	561,425	247,389	-
2600 Total Deferred Inflows of Resources	<u>561,425</u>	<u>247,389</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	7,410,286
3480 Retirement of Long-Term Debt	-	7,739,194	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3510 Construction	4,200,000	-	-
3525 Retirement of Loans or Notes Payable	628,533	-	-
3600 Unassigned Fund Balance	2,968,642	-	-
3000 Total Fund Balances	<u>7,797,175</u>	<u>7,739,194</u>	<u>7,410,286</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 11,295,166</u>	<u>\$ 8,036,098</u>	<u>\$ 9,294,025</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 618,832	\$ 12,178,897
-	13,129,562
-	983,523
-	(12,311)
94,857	3,050,779
-	8,528
<u>\$ 713,689</u>	<u>\$ 29,338,978</u>
\$ 88,219	\$ 1,472,045
-	1,609
68,027	1,891,980
-	298,966
16,650	1,215,718
-	162,398
<u>172,896</u>	<u>5,042,716</u>
-	808,814
<u>-</u>	<u>808,814</u>
58	58
109,578	7,519,864
-	7,739,194
315,202	315,202
115,955	4,315,955
-	628,533
-	2,968,642
<u>540,793</u>	<u>23,487,448</u>
<u>\$ 713,689</u>	<u>\$ 29,338,978</u>

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CELINA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2019

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	23,487,448
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 (decrease) net position.		290,975
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 \$112,102,043 and the accumulated depreciation was \$26,650,659. In addition, long-term liabilities, including bonds payable of \$117,662,144, and loans payable of \$809,816, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$1,876,523 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), & long-term debt in the governmental activities, is to increase (decrease) net position.		(34,897,099)
3 Current year capital outlays of \$20,142,759 and long-term debt principal payments of \$1,485,169 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. Accretion on capital appreciation bonds of \$332,665, amortization of bond premiums of \$443,880, and accrued interest payable of \$251, are not reflected in the fund financial statements, but are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.		22,404,222
4 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 of \$808,814 as revenue, 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.		808,814
5 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(3,362,342)
6 The District is required to recognize its proportionate share of the net pension liability required by GASB 68 in the amount of \$7,930,152, a deferred resource inflow in the amount of \$434,531, and a deferred resource outflow in the amount of \$4,896,805. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(3,467,878)
7 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. The District is required to recognize its proportionate share of the OPEB liability in the amount of \$10,279,431, a deferred resource inflow the amount of \$3,250,604, and a deferred resource outflow in the amount of \$1,610,955. The net effect of including the prior period adjustment, net OPEB liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(11,919,080)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>(6,654,940)</b>

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

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const Series 2018
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 17,912,919	\$ 7,411,311	\$ 349,720
5800 State Program Revenues	9,620,856	81,518	-
5900 Federal Program Revenues	108,260	-	-
5020 Total Revenues	<u>27,642,035</u>	<u>7,492,829</u>	<u>349,720</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	13,876,567	-	-
0012 Instructional Resources and Media Services	248,577	-	-
0013 Curriculum and Instructional Staff Development	314,720	-	-
0021 Instructional Leadership	59,637	-	-
0023 School Leadership	1,790,497	-	-
0031 Guidance, Counseling and Evaluation Services	735,425	-	-
0033 Health Services	266,304	-	-
0034 Student (Pupil) Transportation	1,278,796	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,310,582	-	-
0041 General Administration	1,232,109	-	-
0051 Facilities Maintenance and Operations	2,894,162	-	-
0052 Security and Monitoring Services	256,380	-	-
0053 Data Processing Services	521,954	-	-
Debt Service:			
0071 Principal on Long-Term Debt	181,283	1,303,886	-
0072 Interest on Long-Term Debt	22,579	4,575,867	-
0073 Bond Issuance Cost and Fees	-	5,825	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	55,058	-	18,553,925
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	509,333	-	-
0099 Other Intergovernmental Charges	137,987	-	-
6030 Total Expenditures	<u>25,691,950</u>	<u>5,885,578</u>	<u>18,553,925</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,950,085</u>	<u>1,607,251</u>	<u>(18,204,205)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(135,179)	-	-
7080 Total Other Financing Sources (Uses)	<u>(135,179)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,814,906	1,607,251	(18,204,205)
0100 Fund Balance - July 1 (Beginning)	<u>5,982,269</u>	<u>6,131,943</u>	<u>25,614,491</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 7,797,175</u>	<u>\$ 7,739,194</u>	<u>\$ 7,410,286</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 912,434	\$ 26,586,384
262,326	9,964,700
656,029	764,289
<u>1,830,789</u>	<u>37,315,373</u>
467,078	14,343,645
-	248,577
400	315,120
-	59,637
-	1,790,497
-	735,425
-	266,304
-	1,278,796
1,026,546	1,026,546
79,219	1,389,801
-	1,232,109
-	2,894,162
-	256,380
94,758	616,712
-	1,485,169
-	4,598,446
-	5,825
876,073	19,485,056
-	509,333
-	137,987
<u>2,544,074</u>	<u>52,675,527</u>
<u>(713,285)</u>	<u>(15,360,154)</u>
135,191	135,191
(12)	(135,191)
<u>135,179</u>	<u>-</u>
(578,106)	(15,360,154)
<u>1,118,899</u>	<u>38,847,602</u>
<u>\$ 540,793</u>	<u>\$ 23,487,448</u>

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CELINA 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 JUNE 30, 2019

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (15,360,154)
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 (decrease) net position.	1,861
Current year capital outlays of \$20,142,759 and long-term debt principal payments of \$1,485,169 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. Accretion on capital appreciation bonds of \$332,665, amortization of bond premiums of \$443,880, and interest payable of \$251, are not reflected in the fund financial statements, but are recorded in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to increase (decrease) net position.	22,404,222
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 of \$376,804 to show the revenue earned from the current year's tax levy, 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.	376,804
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 increase (decrease) net position.	(3,362,342)
Current year changes due to GASB 68 increased revenues in the amount of \$707,794, but also increased expenses in the amount of \$1,478,237. The impact of these items is to increase (decrease) the change in net position.	(770,443)
The implementation of GASB 75 to report the District's share of the TRS OPEB plan resulted in current year increased revenues in the amount of \$332,080, but also increased expenses in the amount of \$494,154. The impact of these items is to increase (decrease) the change in net position.	(162,074)
<b>Change in Net Position of Governmental Activities</b>	\$ 3,127,874

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

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 305
Due from Other Funds	<u>298,966</u>
Total Assets	<u>299,271</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	<u>8,296</u>
Total Liabilities	<u>8,296</u>
<b>NET POSITION</b>	
Unrestricted Net Position	<u>290,975</u>
Total Net Position	<u><u>\$ 290,975</u></u>

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

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 2,462
Total Operating Revenues	2,462
OPERATING EXPENSES:	
Other Operating Costs	601
Total Operating Expenses	601
Operating Income	1,861
Total Net Position - July 1 (Beginning)	289,114
Total Net Position - June 30 (Ending)	\$ 290,975

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

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 861
Cash Payments for Insurance Claims	(601)
Net Cash Provided by Operating Activities	260
Net Increase in Cash and Cash Equivalents	260
Cash and Cash Equivalents at Beginning of Year	45
Cash and Cash Equivalents at End of Year	\$ 305
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 1,861
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(1,601)
Net Cash Provided by Operating Activities	\$ 260

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

CELINA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2019

	Agency Fund
<hr/>	
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,662
Total Assets	<u>\$ 2,662</u>
 <b>LIABILITIES</b>	
Accounts Payable	\$ 102
Due to Student Groups	2,560
Total Liabilities	<u>\$ 2,662</u>

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

CELINA INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Celina Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

**1. Reporting Entity**

The Board of Trustees is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *"The Financial Reporting Entity,"* as amended by Statements No. 39, *"Determining Whether Certain Organizations are Component Units,"* and No. 61, *"The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34."* There are no component units included within the reporting entity.

**2. 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 nonfiduciary activities of the District. Taxes and intergovernmental revenues normally support governmental activities. The effect of interfund activity has been removed from these statements.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include (1) charges for services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Program revenues included in the *Statement of Activities* reduce the cost of the function to be financed from general activities. Taxes and other items not identifiable as program revenues are reported instead as general revenues.

The District reports all direct expenses by function in the *Statement of Activities*. Direct Expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the program expenses of each function.

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

**Government-Wide Financial Statements** are reported using 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 grantor have been met.

**Governmental Fund Financial Statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, deferred inflows of resources, deferred outflows of resources, 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). Revenues are recognized in the accounting period in which they become both measurable and available. Expenditures are generally recorded when the liability is incurred, if measurable, except for unmatured principal and interest 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collectible within 60 days of year-end.

Revenues from local sources consist primarily of property taxes, which are susceptible to accrual and considered available if they will be collected within 60 days of the end of the fiscal year. 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 at the earnings date.

The special revenue funds, except for the Child Nutrition Fund, include programs that are financed on a project grant basis. These projects have grant periods that range from less than twelve months to in excess of two years. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When grant funds are received in advance of being earned, they are recorded as deferred revenues until earnings criteria are met.

**Proprietary and Fiduciary Fund Financial Statements** are accounted for on a *flow of economic resources measurement focus*. Within this focus, all assets and all liabilities associated with the operation of these funds are included on the fund *Statement of Net Position*. Agency funds are custodial in nature and do not involve measurement of results or operations.

#### **4. Fund Accounting**

The District reports its financial activities through the use of “fund accounting”. The activities of the District are organized on the basis of funds. The operations of each fund are accounted for by providing a separate set of self-balancing accounts to reflect results of activities. Fund accounting segregates funds according to their intended purposes to assist management in demonstrating compliance with finance-related legal and contractual provisions.

**Governmental Funds** are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District’s expendable financial resources and the related liabilities are accounted for through the governmental funds. The following are the District’s **major** governmental funds:

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the retirement of, long-term debt principal, interest, and related costs.

Bond Construction – Series 2018 – This Bond Construction Fund is used to account for financial resources to be used for the acquisition, renovation, or construction of major capital projects.

Other non-major governmental funds consist of the Special Revenue Funds and non-major Capital Projects Funds. The Special Revenue Funds account for resources that are legally restricted or locally committed to expenditures for specified purposes. Most Federal and some State financial assistance is accounted for in special revenue funds. The non-major Capital Projects Funds are used to account for financial resources to be used for the acquisition, renovation, or construction of capital projects.

**Proprietary Funds:**

Internal Service Fund – The Internal Service Fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

**Fiduciary Funds:**

Agency Funds – The Agency Funds are fiduciary funds that are custodial in nature (assets equal liabilities). These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. The Student Activity Fund accounts for the receipt and disbursement of monies from student activity organizations. These organizations exist with the explicit approval of and are subject to revocation by, the District's Board of Trustees. This fund reflects the District agency relationship with the student activity organizations.

**5. Assets, Liabilities, and Deferred Inflows/Outflows**

**Cash and Cash Equivalents** – The District's cash and cash equivalents include cash on hand, demand deposits, money market accounts with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$305 as of June 30, 2019.

**Investments** - Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. District management believes that the District adheres to the requirements of the State of Texas Public Funds Investment Act regarding investment practice, management reports, and establishment of appropriate policies. Additionally, management believes that the investment practices of the District are in accordance with local policies for the current fiscal year.

**Interfund Receivables and Payables** – Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All residual balances between governmental activities are eliminated in the government-wide statements.

**Capital Assets** – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the governmental activities column 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 acquisition 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Classification</u>	<u>Useful Life</u>
Buildings	39-50 years
Building Improvements	15-40 years
Vehicles & Buses	5-10 years
Equipment	5-7 years



**Vacation and Sick Leave** – Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment Sick leave is allowed to be accumulated but does not vest. Therefore, no liability exists for unused sick leave.

**Long-term Liabilities** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the *Statement of Net Position*. Bond premiums and discounts are reported as a liability and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expenses as incurred. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources while discounts on debt issuances and payments to bond refunding escrow agents are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Pensions and Other Post-Employment Benefits** – The District records its proportionate share of the net pension & OPEB liabilities of the Teacher Retirement System of Texas (TRS). The fiduciary net position of TRS has been determined using the economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions & OPEB, pension & OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS and TRS-Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with benefit terms. For the pension plan, investments are reported at fair value. For the TRS-Care OPEB plan, there are no investments as this is a pay as you go plan and all cash is held in a cash account.

**Deferred Outflows/Inflows of Resources** – In addition to assets and liabilities, the government-wide *Statement of Net Position* and governmental fund *Balance Sheet* report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions and other post-employment benefits on the government-wide *Statement of Net Position*.

## **6. Fund Balances and Net Position**

Net position on the government-wide *Statement of Net Position* includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that are directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by bond covenants.

Restricted for Campus Activities is the component of net position that is restricted for campus activities.

Restricted for Scholarships is the component of net position that is restricted for scholarships.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities, and deferred inflows that is not invested in capital assets or restricted for specific purpose.

It is the District’s policy to spend funds available from restricted sources prior to unrestricted sources.

Fund balances on the governmental funds’ *Balance Sheet* include the following:

Non-spendable fund balance is the portion of the gross fund balance that is not expendable because it is either not in spendable form or is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts restricted for a specific purpose by the provider (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects bond funds are restricted by the bondholders for the specific purpose of capital projects and capital outlays. Federal & State grant resources are restricted pursuant to the mandates of the granting agency.

Committed fund balance is that portion of fund balance that is committed to a specific purpose by the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by Board action. These amounts cannot be used for any other purpose unless the Board removes or changes the constraint by exercising the same type of action originally used to commit the funds.

Unassigned fund balance is the difference between the total fund balance and the total of the non-spendable, restrict, and committed fund balances and can be utilized for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, or unassigned fund balances are available, the District considers amounts to have been spent first from committed funds, then unassigned funds, as need, unless the Board of Trustees has provided otherwise in its commitment actions.

#### **7. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. 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 data base for policy development and funding plans.

#### **8. Management's Use of Estimates**

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

#### **9. Encumbrance Accounting**

Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to assign the portion of the applicable appropriation. This methodology is employed in the governmental fund financial statements. Encumbrances are not liabilities and are therefore not recorded as expenditures until the receipt of the material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are re-appropriated in the next fiscal year. There were no encumbrances at year-end considered to be significant.

#### **Note B. CASH AND INVESTMENTS**

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

At June 30, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$14,293,361 in the depository bank and \$11,015,403 in Texpool investment accounts. At June 30, 2019 and during the year then ended, the District's combined deposits were fully insured by FDIC insurance or collateralized with securities held by the District's agent bank in the District's name, or by letters of credit.

Depository information required to be reported to the Texas Education Agency is as follows:

- a. Depository: Independent Bank, McKinney, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$31,573,155 and occurred during the month of July 2018.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$33,597,550.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

The Public Funds Investment Act (PFIA) (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, which must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements, and certain other investments. The investments owned at fiscal year-end are held by the District or its agent in the District's name.

In compliance with the PFIA, the District has adopted a deposit and investment policy, which address the following risks:

Credit Risk is the risk that a security issuer may default on an interest or principal payment. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by nationally recognized agencies such as Standards and Poor's (S&P) or Moody's Investor Service. On August 31, 2019, Texpool's investment credit quality rating was AAAM (Standard & Poor's).

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the District's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The District's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC coverage protected by approved pledged securities held on behalf of the District.

Concentration of Credit Risk is the risk associated with holding investments that are not pools and full faith credit securities. These risks are controlled by limiting the percentages of these investments in the District's portfolio.

Interest Rate Risk is the risk that interest rates will rise and an investment in a fixed-income security will decrease in value. Interest rate risk is reduced by diversifying, investing in securities with different durations, and laddering maturity dates. The District manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The District's policy does not allow for any direct foreign investments, and therefore the District is not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the below hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset.

The District has the following recurring fair value measurements as of June 30, 2019:

Cash & Cash Equivalents of \$14,293,361 are valued using quoted market prices (Level 1 inputs).

Investments in Texpool accounts of \$11,015,403 are valued using quoted market prices (Level 1 inputs).

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

**Note C. PROPERTY TAXES**

The District's ad valorem property tax is levied on all real and business personal property located in the District. A lien exists on all property on January 1<sup>st</sup> of each year. Tax statements are mailed on October 1<sup>st</sup> each year or as soon thereafter as possible. Taxes are due upon receipt and become delinquent if not paid before February 1<sup>st</sup> of the following calendar year. The assessed value of the roll as of the end of the fiscal year was \$1,366,566,491.

The tax rates levied for the fiscal year ended June 30, 2019, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.14 and \$0.50 per \$100 valuation, respectively, for a total of \$1.64 per \$100 valuation.

Current year tax collections, including delinquent taxes collected this year, for the period ended June 30, 2019, were 104.97% of the current year levy, and 101.40% for the prior year.

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for general obligation bond retirement is provided by the debt service tax together with any available state funding and interest earned within the Debt Service Fund.

Allowances for uncollectible taxes within the General Fund and the Debt Service Fund are based on a historical experience. 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.

**Note D. RECEIVABLES**

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 Available School Fund.

Receivables due from other governments as of June 30, 2019 are as follows:

<u>Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$2,929,765	\$0	\$18,182	\$2,947,947
Debt Service Funds	0	0	7,975	7,975
Special Revenue Funds	3,645	91,212	0	94,857
<b>Totals</b>	<b>\$2,933,410</b>	<b>\$91,212</b>	<b>\$26,157</b>	<b>\$3,050,779</b>

**Note E. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2019, consisted of the following individual receivables & payables:

**Due to Internal Service Fund from:**

General Fund	<u>\$298,966</u>
Total Due to Internal Service Fund from Other Funds	<u><u>\$298,966</u></u>

Interfund transfers for the year ended June 30, 2019, consisted of the following individual amounts:

**Transfers to Nonmajor Governmental Funds from:**

General Fund	<u>\$135,179</u>
Total Transferred to Nonmajor Governmental Funds from Other Funds	<u><u>\$135,179</u></u>

**Transfers to Nonmajor Governmental Funds from:**

Bond Construction-Series 2016	<u>\$12</u>
Total Transferred to Nonmajor Governmental Funds from Other Funds	<u><u>\$12</u></u>

**Note F. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2019 is as follows:

	<u>Beginning</u>			<u>Ending Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Land	\$5,020,682	\$0	\$0	\$5,020,682
Buildings & Improvements	98,793,359	48,288	0	98,841,647
Equipment	4,288,369	1,235,421	0	5,523,790
Vehicles	3,198,375	394,628	0	3,593,003
Construction in Progress	801,258	18,464,422	0	19,265,680
Totals at Historical Cost	<u>112,102,043</u>	<u>20,142,759</u>	<u>0</u>	<u>132,244,802</u>
Less accumulated depreciation for:				
Buildings & Improvements	(22,614,158)	(2,584,454)	0	(25,198,612)
Equipment	(1,982,527)	(468,208)	0	(2,450,735)
Vehicles	(2,053,974)	(312,680)	0	(2,366,654)
Total accumulated depreciation	<u>(26,650,659)</u>	<u>(3,365,342)</u>	<u>0</u>	<u>(30,016,001)</u>
Capital Assets, Net	<u><u>\$85,451,384</u></u>	<u><u>\$16,777,417</u></u>	<u><u>\$0</u></u>	<u><u>\$102,228,801</u></u>

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$1,677,314
12 Instructional Resources & Media Services	30,497
13 Curriculum & Instructional Staff Development	30,497
23 School Leadership	213,476
31 Guidance, Counseling, & Evaluation Services	91,490
33 Health Services	30,497
34 Student (Pupil) Transportation	434,666
35 Food Services	121,986
36 Cocurricular/Extracurricular Activities	152,483
41 General Administration	152,483
51 Plant Maintenance & Operations	335,463
52 Security & Monitoring Services	30,497
53 Data Processing Services	60,993
	<hr/>
Total Depreciation Expense	<u><u>\$3,362,342</u></u>

### **Construction Commitments**

The District was obligated at June 30, 2019, under contract for construction of a high school athletic complex. The total construction in progress was \$19,265,680, which includes retainage payable of \$1,037,870. The outstanding construction commitments associated with this project totaled approximately \$4,868,516 as of June 30, 2019.

### **Note G. LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended June 30, 2019 is as follows:

	<u>Beginning</u>			<u>Ending Balance</u>	<u>Amounts Due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		<u>within One</u>
					<u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$107,349,815	\$0	(\$1,303,886)	\$106,045,929	\$1,871,379
Accumulated Accretion on CABs	799,267	79,814	(412,479)	466,602	
Unamortized Bond Premiums	9,513,062	0	(443,880)	9,069,182	
Total Bonds Payable, Government-Wide	117,662,144	79,814	(2,160,245)	115,581,713	
Loans Payable	809,816	0	(181,283)	628,533	186,815
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Governmental Activities	<u>\$118,471,960</u>	<u>\$79,814</u>	<u>(\$2,341,528)</u>	<u>\$116,210,246</u>	<u>\$2,058,194</u>

### **Bonds**

The 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 the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2019.

A summary of changes in bonds for the year ended June 30, 2019 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning Amounts Outstanding 7/01/18</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding 6/30/19</u>
Capital Appreciation Bonds-Series 2006	3.80-4.80%	2,581,051	192,010	708,919	0	(257,990)	450,929
Capital Appreciation Bonds-Series 2007	4.23-4.36%	209,617	529,103	55,897	0	(55,897)	0
School Building Bonds-Series 2008	3.75-5.00%	10,000,000	5,063	270,000	0	(270,000)	0
Unltd Tax Refunding Bonds - Series 2010	2.00-4.00%	1,850,000	45,500	1,295,000	0	(110,000)	1,185,000
Unltd Tax Refunding Bonds - Series 2013	2.00-4.00%	8,460,000	255,919	8,305,000	0	0	8,305,000
Capital Appreciation Bonds - Series 2013	1.43-1.90%	290,000	0	290,000	0	0	290,000
Unltd Tax Refunding Bonds - Series 2014	3.00-5.00%	9,105,000	286,500	8,480,000	0	(490,000)	7,990,000
Unltd Tax Refunding Bonds - Series 2015	3.00-4.00%	9,265,000	360,150	9,250,000	0	(20,000)	9,230,000
Refunding/Building Bonds - Series 2016	3.00-5.00%	33,540,000	1,315,031	33,540,000	0	0	33,540,000
Refunding/Building Bonds - Series 2016A	2.50-5.00%	22,465,000	819,475	22,395,000	0	(100,000)	22,295,000
Unltd Tax Building Bonds - Series 2018	2.50-5.00%	22,760,000	767,115	22,760,000	0	0	22,760,000
Total General Obligation Bonds			\$4,575,866	\$107,349,816	\$0	(\$1,303,887)	\$106,045,929
Accumulated Accretion on CABs				799,267	79,814	(412,479)	466,602
Unamortized Bond Premiums				9,513,062	0	(443,880)	9,069,182
Total Bonds Payable, Government-Wide Financials				\$117,662,145	\$79,814	(\$2,160,246)	\$115,581,713

A portion of the above bonds were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity.

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 6/30/19</u>
2006	\$450,929	\$810,932
2013	\$290,000	\$1,171,471

Debt service requirements for bonds are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2020	\$1,871,378	\$4,539,553	\$6,410,931
2021	2,259,551	4,575,149	6,834,700
2022	2,535,000	4,281,019	6,816,019
2023	3,005,000	3,804,281	6,809,281
2024	3,140,000	3,667,263	6,807,263
2025-2029	17,840,000	16,175,856	34,015,856
2030-2034	21,690,000	12,280,800	33,970,800
2035-2039	24,965,000	8,101,178	33,066,178
2040-2044	17,490,000	4,115,109	21,605,109
2045-Maturity	11,250,000	1,275,300	12,525,300
<b>Totals</b>	<b>\$106,045,929</b>	<b>\$62,815,508</b>	<b>\$168,861,437</b>

### Loans

A summary of changes in loans for the year ended June 30, 2019 is as follows:

<u>Date of Issue/Maturity</u>	<u>Purpose/Lawful Authority</u>	<u>Fund Payable From/Interest Rate</u>	<u>Current Year Interest</u>	<u>Beginning Balance</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Ending Balance</u>
06/10-6/20	Maintenance Tax/ TEC 45.108	General/3.00%	\$19,365	\$694,548	\$0	(\$155,479)	\$539,069
10/12-10/22	School Bus Loan/ TEC 34.005	General/3.00%	3,214	115,267	0	(25,803)	89,464
<b>Totals</b>			<b>\$22,579</b>	<b>\$809,815</b>	<b>\$0</b>	<b>(\$181,282)</b>	<b>\$628,533</b>

Debt service requirements for loans are as follows:

<u>Year Ending June 30,</u>	<u>Loans</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2020	\$186,815	\$17,047	\$203,862
2021	192,607	11,255	203,862
2022	198,533	5,329	203,862
2023	50,578	388	50,966
2024	0	0	0
2025-Maturity	0	0	0
<b>Totals</b>	<b>\$628,533</b>	<b>\$34,019</b>	<b>\$662,552</b>

### Note H. DUE TO OTHER GOVERNMENTS

As of June 30, 2019, the District had no amounts due to Texas Education Agency for 2018-2019 state foundation settle-up.



**Note I. UNEARNED REVENUE & UNAVAILABLE REVENUE**

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at June 30, 2019 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Property Tax Revenue	\$112,883	\$0	\$49,515	\$162,398
Total Unearned Revenue	\$112,883	\$0	\$49,515	\$162,398
Unavailable Revenue:				
Property Tax Revenue	\$561,425	\$0	\$247,389	\$808,814
Total Unavailable Revenue	\$561,425	\$0	\$247,389	\$808,814

**Note J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Totals</u>
Property Taxes	\$16,352,733	\$0	\$7,172,606	\$0	\$23,525,339
Penalties, Interest, & Other Tax					
Related Income	305,296	0	121,891	0	427,187
Investment Income	121,328	0	116,814	353,263	591,405
Gifts & Bequests	802,490	0	0	0	802,490
Food Service Sales	0	538,409	0	0	538,409
Athletics	107,443	0	0	0	107,443
Co-curricular	0	365,871	0	0	365,871
Other	223,629	0	0	4,611	228,240
Totals	\$17,912,919	\$904,280	\$7,411,311	\$357,874	\$26,586,384

**Note K. RISK MANAGEMENT**

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

**Health Care Coverage**

During the year ended June 30, 2019, all employees of the District were offered health care coverage under the TRS Active Care insurance plan (the Plan), which is a statewide health insurance coverage program for public education employees established by the 77<sup>th</sup> Texas Legislature. The District contributed \$300 per month per enrolled employee, which includes \$75 per month which is reimbursed by the State of Texas to the Plan. Employees, at their option, authorized payroll withholdings to pay the additional cost of the premiums for themselves and dependents.

### **Workers Compensation Coverage**

The District is self-funded for workers compensation insurance and has an interlocal agreement with Claims Administration Services, Inc. (CASA) to serve as the District's third-party administrator. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended June 30, 2019, to \$350,000 for any individual participant. At June 30, 2019, the District's unpaid claims totaled \$8,296, which includes incurred but not reported claims. The liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information obtained prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended June 30, 2018</u>	<u>Year Ended June 30, 2019</u>
Unpaid claims, beginning of fiscal year	\$13,274	\$9,897
Incurred claims (including IBNR's)	393	601
Claim payments	(3,770)	(2,202)
Unpaid claims, end of fiscal year	<u>\$9,897</u>	<u>\$8,296</u>

### **Litigation and Contingencies**

The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

### **State and Federal Programs**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

### **Note L. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Celina 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). 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.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2018 Comprehensive Annual Financial Report by TRS provides the following information regarding the components of the Net Pension Liability of the pension plan as of August 31, 2018:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 209,611,328,793
Less: Plan Fiduciary Net Position	<u>154,568,901,833</u>
Net Pension Liability	<u>\$ 55,042,426,960</u>
<b>Net position as a percentage of total pension liability</b>	<b>73.74%</b>

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 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.

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2019 FY Employer Contributions		\$ 464,062
District's 2019 FY Member Contributions		\$ 1,283,567
Measurement Year NECE On-Behalf Contributions		\$ 851,141

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.

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 Data/Yield Curve/Data Municipal Bonds exempt municipal bonds as reported Last year ending August 31 in Projection Period (100 years)	3.69% - Source for the rate is the Fixed Income Market with 20 years to maturity that include only federally tax- in Fidelity index's "20-Year Municipal GO AA Index." 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.

**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 Systems target asset allocation as of August 31, 2018 (see page 52 of the TRS CAFR) are summarized below:

Asset Class	Target Allocation*	Long-Term Expected Arithmetic Real Rate of Return**	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
U.S.	18.00%	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	10.18	1.32
<b>Stable Value</b>			
U.S. Treasuries	11.00%	1.11	0.12
Absolute Return	0.00	0.00	0.00
Hedge Funds (Stable Value)	4.00	3.09	0.12
Cash	1.00	(0.30)	0.00
<b>Real Return</b>			
Global Inflation Linked Bonds	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
<b>Risk Parity</b>			
Risk Parity	<u>5.00</u>	<u>3.70</u>	<u>0.18</u>
Inflation Expectations			2.30
Volatility Drag***			(0.79)
<b>Total</b>	<b>100%</b>		<b>7.25%</b>

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

\*\* Capital market assumptions some from Aon Hewitt (2017 Q4)

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

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the Net Pension Liability. The discount rate can be found in the 2018 TRS CAFR, Note 11, page 78.

	1% Decrease in Discount Rate (5.907%)	Current Single Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability:	\$ 11,968,501	\$ 7,930,152	\$ 4,660,869

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2019, Celina Independent School District reported a liability of \$7,930,152 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Celina Independent School District. The amount recognized by Celina 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 Celina Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 7,930,152
State's proportionate share that is associated with the District	<u>13,915,571</u>
Total	<u>\$21,845,723</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 0.000144073449% compared to the 0.000130819507% as of August 31, 2017. This was an increase of 0.000013253942%.

**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 June 30, 2019, Celina Independent School District recognized pension expense of \$1,377,271 and revenue of \$1,377,271 for support provided by the State in the Government Wide Statement of Activities.

At June 30, 2019, Celina 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: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 49,430	\$ 194,575
Changes in actuarial assumptions	2,859,202	89,350
Net Difference between projected and actual investment earnings		150,469
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,524,111	137
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	464,062	
Total	\$4,896,805	\$434,531

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

Year ended August 31:	Pension Expense Amount
2020	\$ 1,033,446
2021	716,794
2022	628,740
2023	681,175
2024	579,074
Thereafter	358,983

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

**Plan Description.** The Celina Independent School 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.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

<u>Net OPEB Liability</u>	<u>Total</u>
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>
<b>Net position as a percentage of total OPEB liability</b>	<b>1.57%</b>

**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 system. Optional dependent coverage is available for an additional fee.

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

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

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage. These new premium rates for retirees with Medicare 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.)

TRS-Care Monthly Premium rates Effective January 1, 2018 - Dec. 31, 2018			
		<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$	135	\$ 200
Retiree and Spouse		529	689
Retiree or Surviving Spouse and Children		468	408
Retiree and Family		1,020	999

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

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

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2019</u>
Active Employee	0.65%	0.65
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%

District's 2019 FY Employer Contributions	\$ 163,602
District's 2019 FY Member Contributions	\$ 108,353
Measurement Year NECE On-Behalf Contributions	\$ 202,926

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.

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

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

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

Additional Actuarial Methods and Assumptions:

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

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

2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.

Premium data submitted was not adjusted for permissible exclusions 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.



**Discount Rate.** A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 percent in the discount rate since the previous year. The Discount Rate can be found in the 2018 TRS CAFR on page 71. 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 1% less than and 1% greater than the discount rate that was used (3.69%) 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%)
District's proportionate share of the Net OPEB Liability:	\$ 12,236,055	\$ 10,279,431	\$ 8,731,616

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 8,537,235	\$ 10,279,431	\$ 12,573,941

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2019, Celina Independent School District reported a liability of \$10,279,431 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Celina Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 10,279,431
State's proportionate share that is associated with the District	<u>14,708,474</u>
Total	<u>\$24,987,905</u>

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

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.000205873081% compared to the 0.000192584699% as of August 31, 2017. This is an increase of 0.00013288382%.

**Changes in Actuarial Assumptions Since the Prior Actuarial Valuation –** The following were changes to the actuarial 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 85th Legislature, Regular Session passed the following statutory changes which became effective on September 1, 2017:

Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.

Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.

Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.

Allowed eligible retirees and 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.

For the year ended June 30, 2019, Celina Independent School District recognized OPEB expense of \$535,006 and revenue of \$535,006 for support provided by the State.

At June 30, 2019, Celina Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 545,491	\$ 162,225
Changes in actuarial assumptions	171,536	3,088,379
Net Difference between projected and actual investment earnings	1,798	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	728,528	
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	163,602	
Total	\$1,610,955	\$3,250,604

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:

Year ended August 31:	OPEB Expense Amount
2020	\$ (313,944)
2021	(313,944)
2022	(313,944)
2023	(314,284)
2024	(314,479)
Thereafter	(232,655)

**Note N. MEDICARE PART D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. State Contributions for Medicare Part D made on behalf of Celina Independent School District's employees were \$63,435, \$46,472, and \$44,672, respectively for fiscal years ended June 30, 2019, 2018, and 2017.

**Note O. JOINT VENTURES – SHARED SERVICE ARRANGEMENTS**

The District participates in shared services arrangements for Special Education Services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Celina Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

**Note P. SUBSEQUENT EVENTS**

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through November 10, 2019, which is the date the financial statements were available to be issued. On July 11, 2019, the District entered into a capital lease of \$1,818,049 for the lease purchase of Apple Computers. The capital lease is payable over 4 years with interest at 3.59%. On August 15, 2019, the District issued Series 2019 Bonds totaling \$35,760,000 to fund future construction projects. The new bonds are payable over 30 years with interest at 4.00-5.00%.

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REQUIRED SUPPLEMENTAL INFORMATION

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CELINA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 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	\$ 16,022,924	\$ 17,823,034	\$ 17,912,919	\$ 89,885
5800 State Program Revenues	9,626,295	10,253,091	9,620,856	(632,235)
5900 Federal Program Revenues	55,000	108,300	108,260	(40)
5020 Total Revenues	25,704,219	28,184,425	27,642,035	(542,390)
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	13,991,071	14,344,487	13,876,567	467,920
0012 Instructional Resources and Media Services	253,738	259,453	248,577	10,876
0013 Curriculum and Instructional Staff Development	340,687	340,687	314,720	25,967
0021 Instructional Leadership	59,556	59,671	59,637	34
0023 School Leadership	1,793,692	1,799,893	1,790,497	9,396
0031 Guidance, Counseling and Evaluation Services	755,314	783,954	735,425	48,529
0033 Health Services	287,565	275,898	266,304	9,594
0034 Student (Pupil) Transportation	1,122,857	1,373,593	1,278,796	94,797
0036 Extracurricular Activities	1,101,042	1,327,185	1,310,582	16,603
0041 General Administration	1,131,773	1,263,776	1,232,109	31,667
0051 Facilities Maintenance and Operations	3,147,922	3,210,482	2,894,162	316,320
0052 Security and Monitoring Services	186,870	289,525	256,380	33,145
0053 Data Processing Services	572,904	574,264	521,954	52,310
Debt Service:				
0071 Principal on Long-Term Debt	175,873	181,284	181,283	1
0072 Interest on Long-Term Debt	27,991	22,579	22,579	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	85,241	64,541	55,058	9,483
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	-	77,000	-	77,000
0093 Payments to Fiscal Agent/Member Districts of SSA	532,123	537,523	509,333	28,190
0095 Payments to Juvenile Justice Alternative Ed. Prg.	16,000	16,000	-	16,000
0099 Other Intergovernmental Charges	122,000	138,700	137,987	713
6030 Total Expenditures	25,704,219	26,940,495	25,691,950	1,248,545
1100 Excess of Revenues Over Expenditures	-	1,243,930	1,950,085	706,155
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	(135,179)	(135,179)	-
1200 Net Change in Fund Balances	-	1,108,751	1,814,906	706,155
0100 Fund Balance - July 1 (Beginning)	5,982,269	5,982,269	5,982,269	-
3000 Fund Balance - June 30 (Ending)	\$ 5,982,269	\$ 7,091,020	\$ 7,797,175	\$ 706,155

CELINA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016
District's Proportion of the Net Pension Liability (Asset)	0.000144073%	0.00013082%	0.000121599%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 7,930,152	\$ 4,182,903	\$ 4,595,036
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	13,915,571	7,845,838	8,911,136
Total	<u>\$ 21,845,723</u>	<u>\$ 12,028,741</u>	<u>\$ 13,506,172</u>
District's Covered Payroll	\$ 16,201,841	\$ 14,632,893	\$ 13,431,041
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	48.95%	25.82%	34.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.74%	82.17%	78.00%

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

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



<u>FY 2016</u>		<u>FY 2015</u>	
<u>Plan Year 2015</u>		<u>Plan Year 2014</u>	
	0.000108517%		0.000060109%
\$	3,835,932	\$	1,605,594
	8,228,597		6,716,153
<u>\$ 12,064,529</u>		<u>\$ 8,321,747</u>	
\$	12,115,891	\$	11,247,016
	31.66%		14.28%
	78.43%		83.25%

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

	2019	2018	2017
Contractually Required Contribution	\$ 464,062	\$ 477,843	\$ 503,193
Contribution in Relation to the Contractually Required Contribution	464,062	477,843	503,193
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 16,669,685	\$ 16,201,841	\$ 14,632,893
Contributions as a Percentage of Covered Payroll	2.78%	2.95%	3.44%

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

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

<hr/>	
2016	2015
<hr/>	<hr/>
\$ 451,034	\$ 360,703
451,034	360,703
<hr/>	<hr/>
\$ -	\$ -
<hr/> <hr/>	<hr/> <hr/>
\$ 13,431,041	\$ 12,115,891
3.36%	2.98%

CELINA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED JUNE 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.000205873%	0.000192585%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 10,279,431	\$ 8,374,786
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	14,708,474	12,245,914
Total	<u>\$ 24,987,905</u>	<u>\$ 20,620,700</u>
District's Covered Payroll	\$ 16,201,841	\$ 14,632,893
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	63.45%	57.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.57%	0.91%

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

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

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

	2019	2018
Contractually Required Contribution	\$ 163,602	\$ 135,605
Contribution in Relation to the Contractually Required Contribution	163,602	135,605
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered Payroll	\$ 16,669,685	\$ 16,201,841
Contributions as a Percentage of Covered Payroll	0.98%	0.84%

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

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

CELINA INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2019

**A. Notes to Schedules for the TRS Pension**

*Changes of Benefit terms.*

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

*Changes of Assumptions.*

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.
- . 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.

**B. Notes to Schedules for the TRS OPEB Plan**

*Changes in Benefit.*

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

Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.

Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.

Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.

Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the net enrollment period.

Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

*Changes in Assumptions.*

The following were changes to the actuarial 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.

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

2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.

Premium data submitted was not adjusted for permissible exclusions 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.

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COMBINING STATEMENTS

CELINA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2019

Data Control Codes	211 ESSA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ (49,110)	\$ 71,106	\$ -
1240 Due from Other Governments	64,989	-	-
1000 Total Assets	<u>\$ 15,879</u>	<u>\$ 71,106</u>	<u>\$ -</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 2,250	\$ -	\$ -
2160 Accrued Wages Payable	11,650	56,377	-
2200 Accrued Expenditures	1,979	14,671	-
2000 Total Liabilities	<u>15,879</u>	<u>71,048</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	58	-
3470 Capital Acquisition and Contractual Obligation	-	-	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3510 Construction	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>58</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 15,879</u>	<u>\$ 71,106</u>	<u>\$ -</u>

255 ESSA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	288 ESSA Title IV Part A	289 Summer School LEP	410 Instructional Materials Allotment	427 TX Virtual School Network	429 TX Advanced Placement Grant	461 Campus Activity Funds
\$ (14,203)	\$ (889)	\$ (1,608)	\$ -	\$ 64,009	\$ -	\$ -	\$ 320,094
14,203	989	11,031	-	-	3,645	-	-
<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 9,423</u>	<u>\$ -</u>	<u>\$ 64,009</u>	<u>\$ 3,645</u>	<u>\$ -</u>	<u>\$ 320,094</u>
\$ -	\$ 100	\$ 9,423	\$ -	\$ 64,009	\$ 3,645	\$ -	\$ 4,892
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>100</u>	<u>9,423</u>	<u>-</u>	<u>64,009</u>	<u>3,645</u>	<u>-</u>	<u>4,892</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	315,202
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>315,202</u>
<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 9,423</u>	<u>\$ -</u>	<u>\$ 64,009</u>	<u>\$ 3,645</u>	<u>\$ -</u>	<u>\$ 320,094</u>

CELINA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2019

Data Control Codes	Total Nonmajor Special Revenue Funds	691 Bond Construction Series 2016A	693 Capital Projects Fund	696 Bond Construction Series 2016	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ 389,399	\$ 115,955	\$ 113,478	\$ -
1240	Due from Other Governments	94,857	-	-	-
1000	Total Assets	<u>\$ 484,256</u>	<u>\$ 115,955</u>	<u>\$ 113,478</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 84,319	\$ -	\$ 3,900	\$ -
2160	Accrued Wages Payable	68,027	-	-	-
2200	Accrued Expenditures	16,650	-	-	-
2000	Total Liabilities	<u>168,996</u>	<u>-</u>	<u>3,900</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	58	-	-	-
3470	Capital Acquisition and Contractual Obligation	-	-	109,578	-
3490	Other Restricted Fund Balance	315,202	-	-	-
Committed Fund Balance:					
3510	Construction	-	115,955	-	-
3000	Total Fund Balances	<u>315,260</u>	<u>115,955</u>	<u>109,578</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 484,256</u>	<u>\$ 115,955</u>	<u>\$ 113,478</u>	<u>\$ -</u>

Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 229,433	\$ 618,832
<u>-</u>	<u>94,857</u>
<u>\$ 229,433</u>	<u>\$ 713,689</u>
\$ 3,900	\$ 88,219
<u>-</u>	<u>68,027</u>
<u>-</u>	<u>16,650</u>
<u>3,900</u>	<u>172,896</u>
-	58
109,578	109,578
<u>-</u>	<u>315,202</u>
<u>115,955</u>	<u>115,955</u>
<u>225,533</u>	<u>540,793</u>
<u>\$ 229,433</u>	<u>\$ 713,689</u>

CELINA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	211 ESSA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ -	\$ 538,409	\$ -
5800 State Program Revenues	-	31,287	-
5900 Federal Program Revenues	190,470	419,590	1,116
5020 Total Revenues	<u>190,470</u>	<u>989,286</u>	<u>1,116</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	190,470	-	1,116
0013 Curriculum and Instructional Staff Development	-	-	-
0035 Food Services	-	1,026,546	-
0036 Extracurricular Activities	-	-	-
0053 Data Processing Services	-	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
6030 Total Expenditures	<u>190,470</u>	<u>1,026,546</u>	<u>1,116</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(37,260)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	37,318	-
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>37,318</u>	<u>-</u>
1200 Net Change in Fund Balance	-	58	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ 58</u>	<u>\$ -</u>

255 ESSA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	288 ESSA Title IV Part A	289 Summer School LEP	410 Instructional Materials Allotment	427 TX Virtual School Network	429 TX Advanced Placement Grant	461 Campus Activity Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 365,871
-	-	-	-	182,362	48,277	400	-
<u>27,187</u>	<u>4,883</u>	<u>11,531</u>	<u>1,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>27,187</u>	<u>4,883</u>	<u>11,531</u>	<u>1,252</u>	<u>182,362</u>	<u>48,277</u>	<u>400</u>	<u>365,871</u>
27,187	4,883	11,531	1,252	182,362	48,277	-	-
-	-	-	-	-	-	400	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	79,219
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>27,187</u>	<u>4,883</u>	<u>11,531</u>	<u>1,252</u>	<u>182,362</u>	<u>48,277</u>	<u>400</u>	<u>79,219</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>286,652</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	286,652
-	-	-	-	-	-	-	28,550
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 315,202</u>

CELINA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	Total Nonmajor Special Revenue Funds	691 Bond Construction Series 2016A	693 Capital Projects Fund	696 Bond Construction Series 2016
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 904,280	\$ 2,513	\$ 5,639	\$ 2
5800 State Program Revenues	262,326	-	-	-
5900 Federal Program Revenues	656,029	-	-	-
5020 Total Revenues	<u>1,822,635</u>	<u>2,513</u>	<u>5,639</u>	<u>2</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	467,078	-	-	-
0013 Curriculum and Instructional Staff Development	400	-	-	-
0035 Food Services	1,026,546	-	-	-
0036 Extracurricular Activities	79,219	-	-	-
0053 Data Processing Services	-	-	94,758	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	811,631	64,442	-
6030 Total Expenditures	<u>1,573,243</u>	<u>811,631</u>	<u>159,200</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>249,392</u>	<u>(809,118)</u>	<u>(153,561)</u>	<u>2</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	37,318	12	97,861	-
8911 Transfers Out (Use)	-	-	-	(12)
7080 Total Other Financing Sources (Uses)	<u>37,318</u>	<u>12</u>	<u>97,861</u>	<u>(12)</u>
1200 Net Change in Fund Balance	286,710	(809,106)	(55,700)	(10)
0100 Fund Balance - July 1 (Beginning)	<u>28,550</u>	<u>925,061</u>	<u>165,278</u>	<u>10</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 315,260</u>	<u>\$ 115,955</u>	<u>\$ 109,578</u>	<u>\$ -</u>



<u>Total Nonmajor Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>	
\$	8,154	\$	912,434
	-		262,326
	-		656,029
	<u>8,154</u>		<u>1,830,789</u>
	-		467,078
	-		400
	-		1,026,546
	-		79,219
	94,758		94,758
	<u>876,073</u>		<u>876,073</u>
	<u>970,831</u>		<u>2,544,074</u>
	<u>(962,677)</u>		<u>(713,285)</u>
	97,873		135,191
	(12)		(12)
	<u>97,861</u>		<u>135,179</u>
	(864,816)		(578,106)
	<u>1,090,349</u>		<u>1,118,899</u>
\$	<u>225,533</u>	\$	<u>540,793</u>

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

CELINA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED JUNE 30, 2019

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	\$ 1.040000	\$ 0.500000	\$ 652,209,018
2011	1.140000	0.500000	640,619,079
2012	1.140000	0.500000	639,590,629
2013	1.140000	0.500000	655,224,357
2014	1.140000	0.500000	691,409,202
2015	1.140000	0.500000	755,183,730
2016	1.140000	0.500000	842,404,856
2017	1.140000	0.500000	983,381,713
2018	1.140000	0.500000	1,147,298,532
2019 (School year under audit)	1.140000	0.500000	1,366,566,491
1000 TOTALS			

(10) Beginning Balance 7/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2019
\$ 60,005	\$ -	\$ 8,400	\$ 4,039	\$ (6,510)	\$ 41,056
12,474	-	2,160	947	(447)	8,920
11,816	-	2,568	1,126	-	8,122
26,905	-	15,375	6,743	4,894	9,681
46,868	-	134,382	58,940	229,636	83,182
52,022	-	167,164	73,318	273,229	84,769
59,408	-	195,319	85,666	326,532	104,955
70,151	-	188,834	82,822	360,860	159,355
201,808	-	254,680	111,702	367,521	202,947
-	22,411,690	15,383,851	6,747,303	-	280,536
<u>\$ 541,457</u>	<u>\$ 22,411,690</u>	<u>\$ 16,352,733</u>	<u>\$ 7,172,606</u>	<u>\$ 1,555,715</u>	<u>\$ 983,523</u>

CELINA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED JUNE 30, 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	\$ 409,596	\$ 537,596	\$ 538,409	\$ 813
5800 State Program Revenues	30,762	30,762	31,287	525
5900 Federal Program Revenues	497,815	429,457	419,590	(9,867)
5020 Total Revenues	<u>938,173</u>	<u>997,815</u>	<u>989,286</u>	<u>(8,529)</u>
<b>EXPENDITURES:</b>				
Current:				
0035 Food Services	<u>938,173</u>	<u>1,034,815</u>	<u>1,026,546</u>	<u>8,269</u>
6030 Total Expenditures	<u>938,173</u>	<u>1,034,815</u>	<u>1,026,546</u>	<u>8,269</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(37,000)	(37,260)	(260)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	37,318	37,318	-
1200 Net Change in Fund Balances	-	318	58	(260)
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ 318</u>	<u>\$ 58</u>	<u>\$ (260)</u>

CELINA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 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	\$ 6,584,353	\$ 7,366,263	\$ 7,411,311	\$ 45,048
5800 State Program Revenues	-	81,518	81,518	-
5020 Total Revenues	6,584,353	7,447,781	7,492,829	45,048
<b>EXPENDITURES:</b>				
Debt Service:				
0071 Principal on Long-Term Debt	1,303,887	1,303,887	1,303,886	1
0072 Interest on Long-Term Debt	4,575,867	4,575,867	4,575,867	-
0073 Bond Issuance Cost and Fees	10,000	10,000	5,825	4,175
6030 Total Expenditures	5,889,754	5,889,754	5,885,578	4,176
1200 Net Change in Fund Balances	694,599	1,558,027	1,607,251	49,224
0100 Fund Balance - July 1 (Beginning)	6,131,943	6,131,943	6,131,943	-
3000 Fund Balance - June 30 (Ending)	\$ 6,826,542	\$ 7,689,970	\$ 7,739,194	\$ 49,224

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REPORTS ON COMPLIANCE & INTERNAL CONTROL

***Morgan, Davis & Company, P.C.***  
Post Office Box 8158  
Greenville, Texas 75404

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

Celina Independent School District  
205 South Colorado  
Celina, Texas 75009

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Celina Independent School District, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Celina Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Celina Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Celina Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Celina Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/ Morgan, Davis & Company, P.C.*

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Morgan, Davis & Company, P.C.  
Greenville, Texas

November 10, 2019

CELINA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019

**Summary of Auditor's Results:**

The type of report we issued on whether the financial statements of Celina Independent School District were prepared in accordance with GAAP as an unmodified opinion.

With respect to internal control over financial reporting, we identified no material weaknesses and we reported no significant deficiencies.

We noted no noncompliance material to the financial statements,

**Financial Statements Findings:**

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

CELINA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

CELINA INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2019

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended June 30, 2019.

## SCHOOLS FIRST QUESTIONNAIRE

Celina Independent School District

Fiscal Year 2019

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SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	466,602
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	7,930,152
SF13	Pension Expense (6147) at fiscal year-end.	

Financial Advisory Services  
Provided By:

