

SUPPLEMENT  
dated May 16, 2016  
to  
OFFICIAL STATEMENT  
relating to  
ARGYLE INDEPENDENT SCHOOL DISTRICT  
\$4,490,000  
Unlimited Tax Refunding Bonds  
Series 2016

*PLEASE BE ADVISED that the referenced Official Statement, dated April 27, 2016 (the "Official Statement"), relating to the captioned obligations (the "Bonds") is hereby supplemented and/or amended in the following manner.*

On May 13, 2016, the Texas Supreme Court issued its opinion in the litigation described under the heading "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Current Litigation Related to the Texas Public School Finance System" in the Official Statement, upholding the constitutionality of the Texas public school finance system (the "Finance System").

The Court's unanimous opinion considered a variety of arguments put forth by plaintiffs in the case and by the State of Texas, and the opinion includes the following holding: "Despite the imperfections of the current school funding regime, it meets minimum constitutional requirements." In addition, the Court ruled that "The judgment we render on all constitutional claims and all claims for injunctive relief dispenses with the need for any sort of general continuing trial court jurisdiction over this matter beyond the jurisdiction courts always have to enforce their judgments....", thus concluding the current school finance litigation.

In its opinion, the Court 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.

The opinion, styled "Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.," is available at <http://www.txcourts.gov/media/1371141/140776.pdf>.

The Supreme Court's holding signals that, at least for the present, the matter of how to restructure and fund the Finance System is a matter to be determined by the State Legislature, and therefore the District cannot predict how the ruling will affect funding for the Finance System, in general, or the District in particular.

The Official Statement is hereby amended with respect to the information contained under the heading "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Current

Litigation Related to the Texas Public School Finance System." In addition, the following paragraph contained in the form of opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District, which is attached to the Official Statement as Appendix C will be deleted:

**IN EXPRESSING SUCH OPINION**, we have considered the effect of the November 22, 2005 decision by the Texas Supreme Court in *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.*, upholding, in part, a lower court judgment concluding that the local ad valorem maintenance and operation tax authorized under the school finance system then in effect had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution, in that school districts did not have meaningful discretion in levying the tax. The Court's opinion further noted that the court "...remain convinced...that defects in the structure of the public school finance system expose the system to constitutional challenge. . . . [Such challenges] will repeat until the system is overhauled." Subsequent to such decision, legislation was enacted by the Texas Legislature to address the constitutional issues raised in the court's ruling. Reference is made to the Official Statement for the Bonds for a further description of the rulings, the legislation enacted by the Texas Legislature, and pending litigation challenging the validity of the current school finance system.

**OFFICIAL STATEMENT**  
**Dated: April 27, 2016**

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

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

**The Bonds Are Obligations Designated or Deemed To Be Designated as "Qualified Tax-Exempt Obligations for Financial Institutions."**  
**See "TAX MATTERS – Qualified Tax-Exempt Obligations For Financial Institutions."**

**\$4,490,000**  
**ARGYLE INDEPENDENT SCHOOL DISTRICT**  
**(Denton County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2016**

**Dated Date: May 1, 2016**

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

**(Interest Accrual/Accretion Date: Date of Delivery)**

The Argyle Independent School District (the "District") is issuing its \$4,490,000 Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds") pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended and an order (the "Bond Order") passed by the Board of Trustees of the District (the "Board") on March 21, 2016, in which the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who has approved a "Pricing Certificate" which contains the final terms of sale and completes the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal, Maturity Amount (as defined herein) and interest from the proceeds of a continuing annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).

The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"). The CIBs will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the CIBs will accrue from their initial delivery to the initial purchaser named below (the "Underwriter"), and will be payable on February 15 and August 15 each year, commencing August 15, 2016, until maturity or prior redemption. The CABs will each be issued as fully registered obligations in "Maturity Amount" denominations of \$5,000 or any integral multiple thereof within a maturity. The "Maturity Amount" for the CABs represents the total amount of principal, plus the initial premium, if any, paid therefor, and the accreted/compounded interest thereon at maturity or on a prior redemption date for the CABs. Interest on the CABs will accrete from the date they are initially delivered to the Underwriter, will compound semiannually on February 15 and August 15 of each year (each an "Accretion Date"), commencing August 15, 2016, and will be payable only at maturity. Interest accruing on the CIBs and the accreted/compounded interest on the CABs will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – General Description").

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

Proceeds from the sale of the Bonds will be used to refund a portion of the District's outstanding obligations (see "SCHEDULE I - Schedule of Bonds to be Refunded") and pay costs of issuance related to the Bonds. The refunding is being undertaken to lower the District's debt service and will result in a present value debt service savings to the District (see "THE BONDS – Authorization and Purpose").

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**CUSIP PREFIX: 040319**  
**MATURITY SCHEDULE**  
(See Schedule on Page ii)

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*The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth LLP, Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about May 19, 2016*

**BOSC, Inc.**  
A subsidiary of BOK Financial Corporation

## MATURITY SCHEDULE

\$4,490,000

## UNLIMITED TAX REFUNDING BONDS, SERIES 2016

\$3,275,000 Serial Current Interest Bonds

<u>Maturity Date (8/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield<sup>(B)</sup></u>	<u>CUSIP Suffix<sup>(A)</sup></u>	<u>Maturity Date (8/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield<sup>(B)</sup></u>	<u>CUSIP Suffix<sup>(A)</sup></u>
2016	\$50,000	2.00%	0.75%	YC3	2025	125,000	4.00%	1.65%	YM1
2017	100,000	2.00%	0.75%	YD1	2026	130,000	4.00%	1.70%	YN9
2018	105,000	2.00%	0.90%	YE9	2027	135,000	4.00%	1.75% <sup>(C)</sup>	YP4
2019	105,000	2.00%	1.00%	YF6	2028	140,000	4.00%	1.80% <sup>(C)</sup>	YQ2
2020	110,000	2.00%	1.10%	YG4	2029	145,000	4.00%	1.90% <sup>(C)</sup>	YR0
2021	115,000	2.00%	1.25%	YH2	2030	150,000	4.00%	1.97% <sup>(C)</sup>	YS8
2022	115,000	3.00%	1.35%	YJ8	***	***	***	***	***
2023	115,000	3.00%	1.45%	YK5	2036	1,515,000	4.00%	2.37% <sup>(C)</sup>	YW9
2024	120,000	3.00%	1.55%	YL3					

(Interest Accrues from Date of Initial Delivery)

\$490,000 Term Current Interest Bonds\$490,000, 4.000% Term Current Interest Bonds due August 15, 2033, Price 117.219%, Initial Yield 2.120%<sup>(B)(C)</sup>, CUSIP Suffix YZ2

(Interest Accrues from Date of Initial Delivery)

\$725,000 Premium Capital Appreciation Bonds

<u>Maturity Date (8/15)</u>	<u>Original Principal Amount</u>	<u>Initial Yield to Maturity<sup>(B)</sup></u>	<u>Maturity Amount</u>	<u>Initial Offering Price per \$5,000 in Maturity Amount</u>	<u>CUSIP Suffix<sup>(A)</sup></u>
2034	\$345,000	3.25%	\$1,295,000	\$2,777.15	YX7
2035	380,000	3.31%	1,520,000	2,658.70	YY5

(Interest to Accrete from Date of Initial Delivery)

**Optional Redemption...** The CIBs maturing on or after August 15, 2027 are subject to redemption at the option of the District prior to maturity, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

The CABs are subject to redemption prior to maturity, at the option of the District, in whole or in part, in Maturity Amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or on any date thereafter, at the redemption price equal to the “Accreted Value” as of the date of redemption (such “Accreted Value” as defined herein under the caption “THE BONDS – General Description” and to be calculated as of any redemption date in accordance with such definition) (see “THE BONDS – Redemption Provisions”). For any date other than a February 15 or August 15, the accreted value shall be determined by a straight-line interpolation between the values for the applicable semi-annual compounding dates, based on 30-day months (see “THE BONDS – Redemption Provisions”).

**Mandatory Redemption Provisions...** The CIBs maturing on August 15, 2033 (the “Term CIBs”) are subject to scheduled mandatory sinking fund redemption described herein (see “THE BONDS – Redemption Provisions”).

<sup>(A)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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 Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

<sup>(C)</sup> Yield shown is yield to first call date of August 15, 2026.

## ARGYLE INDEPENDENT SCHOOL DISTRICT

### ELECTED OFFICIALS

<b><u>Name*</u></b>	<b><u>Term Expires</u></b>	<b><u>Occupation</u></b>
Mr. Brian Ratcliff, President	2016	Vice President Sales
Dr. John Bitter, Vice President	2017	Veterinarian
Mr. Craig Hawkesworth, Secretary	2017	Sales Manager
Dr. Jeff Day, Member	2018	Pediatrician
Dr. Steven Moore, Member	2017	Crew Foreman, Oncor
Mr. Keith White, Member	2018	Accountant

*\*One membership position on the Board is presently open.*

### CERTAIN DISTRICT OFFICIALS

<b><u>Name</u></b>	<b><u>Position</u></b>
Dr. Telena Wright	Superintendent
Ms. Liz Stewart	Chief Financial Officer

### CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P. Dallas, Texas	Bond Counsel
RBC Capital Markets, LLC Dallas, Texas	Financial Advisor
Hankins, Eastup, Deaton, Tonn & Seay, P.C. Denton, Texas	Independent Auditor

For additional information regarding the District, please contact:

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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.

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

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

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

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

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

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The Issuer</b>	Argyle Independent School District (the “District”) is a political subdivision located in Denton County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
<b>The Bonds</b>	The \$4,490,000 Argyle Independent School District Unlimited Tax Refunding Bonds, Series 2016 (the “Bonds”) are being issued (i) in part as Current Interest Bonds (“CIBs”) and (ii) in part as Premium Capital Appreciation Bonds (“CABs”), and such Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see “THE BONDS – General Description”).
<b>Authority for Issuance</b>	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended and an order (the “Bond Order”) adopted by the Board on June 15, 2015. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1207, authority to complete the sale of the Bonds. The terms of the sale have been included in a “Pricing Certificate,” which completes the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”) (see “THE BONDS – Authorization and Purpose”).
<b>Payment of Interest</b>	Interest on the CIBs will accrue from the date of their initial delivery to the Underwriter and will be payable semiannually on February 15 and August 15 each year, commencing August 15, 2016, until maturity or prior redemption. Interest on the CABs will accrete from the date of their initial delivery to the Underwriter, will compound semiannually on each February 15 and August 15, commencing August 15, 2016, and will be payable at maturity or on a prior redemption date (see “THE BONDS – General Description”).
<b>Use of Proceeds</b>	Proceeds from the sale of the Bonds will be used to refund a portion of the District’s outstanding obligations (see “Schedule I – Schedule of Bonds to be Refunded”) and pay costs of issuance related to the Bonds. The refunding is being undertaken to lower the District’s debt service and will result in a present value debt service savings to the District (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 (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company (see “BOOK-ENTRY-ONLY SYSTEM”).
<b>Security</b>	The Bonds constitute direct obligations of the District, payable as to principal and interest from a continuing annual ad valorem taxes levied against all taxable property located within the District, without legal limitation as to rate or amount. Additionally, the payment when due of principal, of Maturity Amount (as defined on the cover page hereto), and interest on, the Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “THE BONDS – Security” herein). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.
<b>Optional Redemption</b>	<p>The CIBs maturing on and after August 15, 2027 are subject to optional redemption prior to maturity, in whole or in part, on August 15, 2026, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption as further described herein (see “THE BONDS – Redemption Provisions” herein).</p> <p>The CABs are subject to redemption prior to maturity, at the option of the District, in whole or in part, in Maturity Amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or on any date thereafter, at the redemption price equal to the “Accreted Value” as of the date of redemption (such “Accreted Value” as defined herein under the caption “THE BONDS – General Description” and to be calculated as of any redemption date in accordance with such definition) (see “THE BONDS – Redemption Provisions”). For any date other than a February 15 or August 15, the accreted value shall be determined by a straight-line interpolation between the values for the applicable semi-annual compounding dates, based on 30-day months (see “THE BONDS – Redemption Provisions”).</p>



<b>Mandatory Redemption</b>	The CIBs maturing on August 15, 2033 (the “Term CIBs”) are subject to scheduled mandatory sinking fund redemption as described herein (see “THE BONDS – Redemption Provisions”).
<b>Rating</b>	<p>Moody’s Investors Service, Inc. (“Moody’s”) has assigned a municipal bond rating of “Aaa” to the Bonds based upon the Permanent School Fund Guarantee. Moody’s generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa” (see “RATING” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).</p> <p>The District’s underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is “Aa3” by Moody’s (see “RATING”).</p>
<b>Tax Exemption</b>	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein, including the alternative minimum tax on corporations.
<b>Qualified Tax-Exempt Obligations</b>	The Bonds are obligations that are designated or deemed to be designated as “qualified tax-exempt obligations for financial institutions” (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).
<b>Book-Entry-Only System</b>	The 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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 of principal amount (with respect to the CIBs) or Maturity Amount (with respect to the CABs) or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal, Maturity Amount, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).
<b>Continuing Disclosure of Information</b>	Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”). Such information will be available to the public without charge from the MSRB at <a href="http://www.emma.msrb.org">www.emma.msrb.org</a> (see “CONTINUING DISCLOSURE OF INFORMATION”). Also see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

**OFFICIAL STATEMENT RELATING TO**  
**\$4,490,000**  
**ARGYLE INDEPENDENT SCHOOL DISTRICT**  
**(Denton County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2016**

**INTRODUCTORY STATEMENT**

This Official Statement, including Schedules I and II and Appendices A and B, has been prepared by the Argyle Independent School District located in Denton County, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2016 (the “Bonds”) identified on the cover page and page ii hereof.

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

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 will be submitted to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency and the District, respectively, to provide certain information on a continuing basis.

**THE BONDS**

**Authorization and Purpose**

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended and an order (the “Bond Order”) adopted by the Board on March 21, 2016. In the Bond Order, the Board delegated to officers of the District, pursuant to certain provisions of Chapter 1207, authority to complete the sale of the Bonds. The terms of the sale have been included in a “Pricing Certificate,” which completes the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”). Capitalized terms used herein have the same meaning assigned to such terms in the Order, except as otherwise indicated.

Proceeds from the sale of the Bonds will be used to refund a portion of the District’s outstanding obligations (see “THE BONDS – Refunded Bonds” and “SCHEDULE I – Schedule of Bonds to be Refunded”) and pay costs of issuance related to the Bonds. The refunding is being undertaken to lower the District’s debt service and will result in a present value debt service savings to the District.

**Refunded Bonds**

A description and identification of the Refunded Bonds (the “Refunded Bonds”) appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on the scheduled redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”) pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the underwriter shown on the cover page of this Official Statement (the “Underwriter”), the District will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States (the “Escrow Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will issue its report (the “Report”) verifying at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their redemption date. Such maturing principal of and interest on the Escrow Securities will not be available to pay the debt service on the Bonds (see “VERIFICATION OF ARITHMETICAL COMPUTATIONS”).

By the deposit of the Escrow Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law and in reliance upon the Report. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed to be outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrow Securities. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee.

### **General Description**

The Bonds shall be dated May 1, 2016 and will be issued (i) in part as Current Interest Bonds ("CIBs") and (ii) in part as Premium Capital Appreciation Bonds ("CABs"). Interest accruing on the CIBs and the accreted/compounded interest on the CABs will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent/registrar (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal of the CIBs at maturity or amounts due upon a prior redemption date, interest on the CIBs, Maturity Amounts of the CABs at maturity, and the Accreted Value (as defined herein) of the CABs on a prior redemption date, will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" for a more complete description of such system.

Interest on the CIBs will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date (the "Record Date") for the interest payable on any interest payment date is the last business day of the month next preceding such interest payment date (see "REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment"). The principal of the CIBs at maturity or on a prior redemption date, the Maturity Amounts of the CABs at maturity, and the Accreted Value (as defined herein) of the CABs on a prior redemption date will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or redemption, as applicable; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

CIBs. The CIBs are to mature on the dates and in the principal amounts shown on page ii hereof. The CIBs will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the CIBs will accrue from the date of their initial delivery to the Underwriter at the interest rates shown on the page ii hereof and such interest shall be payable to the registered owners thereof on August 15, 2016, and semiannually thereafter on February 15 and August 15 in each year until maturity or prior redemption.

CABs. The CABs will mature on the dates and in the Maturity Amounts set forth on page ii hereof. The CABs will each be issued as fully registered obligations in Maturity Amount denominations of \$5,000 or any integral multiple thereof within a maturity. The Maturity Amounts of the CABs will be payable at maturity or on a prior redemption date.

The term "Accreted Value" as used in this Official Statement and in the Order means the original principal amount of a CAB plus the initial premium, if any, paid therefor with interest thereon compounded semiannually to February 15 and August 15, as the case may be, next preceding the date of such calculation (or the date of calculation, if such calculation is made on February 15 or August 15), at the respective yield(s) stated on page ii of this Official Statement and, with respect to each \$5,000 Maturity Amount at maturity, as set forth in the Accreted Value tables attached hereto as Schedule II. For any day other than a February 15 or August 15, the Accreted Value of a CAB shall be determined by a straight line interpolation between the values for the applicable semiannual compounding dates (based on 30-day months).

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

A table of accreted values of the CABs per \$5,000 Maturity Amount based on such initial offering prices and the approximate yields set forth therefor is presented in Schedule II attached hereto, and such table of accreted values is provided for informational purposes only and may not reflect the prices for the CABs in the secondary market. The approximate yields of the CABs as set forth on page ii of this Official Statement are based upon the initial offering price therefor set forth on the page ii of this Official Statement. Such offering price includes the principal amount of such CABs plus premium, if any, equal to the amount by which such offering price

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

## Redemption Provisions

**Optional Redemption.** The CIBs maturing on and after August 15, 2027 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

The CABs are subject to redemption prior to maturity, at the option of the District, in whole or in part, in Maturity Amounts of \$5,000 or any integral multiple thereof, on August 15, 2026 or on any date thereafter, at the redemption price equal to the “Accreted Value” as of the date of redemption (such “Accreted Value” as defined herein under the caption “THE BONDS – General Description” and to be calculated as of any redemption date in accordance with such definition). For any date other than a February 15 or August 15, the accreted value shall be determined by a straight-line interpolation between the values for the applicable semi-annual compounding dates, based on 30-day months.

If less than all of the Bonds within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof, to be redeemed.

**Mandatory Redemption.** The CIBs maturing on August 15, 2033 (the “Term CIBs”), are subject to mandatory sinking fund redemption, in part, prior to their stated maturity at the redemption price of par and accrued interest to the date of redemption on the dates and in the principal amounts as follows:

<b>Term CIBs Due</b>	
<b><u>August 15, 2033</u></b>	
<b><u>Redemption</u></b>	<b><u>Principal</u></b>
<b><u>Date (8/15)</u></b>	<b><u>Amount</u></b>
2031	\$155,000
2032	165,000
2033 <sup>(A)</sup>	170,000

<sup>(A)</sup> Stated maturity.

The Paying Agent/Registrar shall select by lot or other customary method that results in a random selection the Term CIBs within the applicable stated maturity to be redeemed from moneys set aside for that purpose in the interest and sinking fund maintained for the payment of the Bonds. Any Term CIB not selected for prior mandatory sinking fund redemption shall be paid on the date of its stated maturity or upon optional redemption.

The principal amount of Term CIBs of a stated maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of any Term CIB of like stated maturity which, at least 45 days prior to a mandatory redemption date: (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term CIBs plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation; (2) shall have been purchased and canceled by the Paying Agent/Registrar, at the request of the District, at a price not exceeding the principal amount of such Term CIB plus accrued interest to the date of purchase; or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

## Notice of Redemption

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

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING WHETHER ONE OR MORE OF THE REGISTERED OWNERS OF SUCH BONDS FAILED TO RECEIVE SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE/ACCRETE IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED 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 or Maturity Amount of such Bonds, as applicable, 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").

### **Security**

The Bonds are direct obligations of the District and are payable as to principal, interest and Maturity Amount from a continuing annual ad valorem tax levied on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

### **Permanent School Fund Guarantee**

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

### **Legality**

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

### **Payment Record**

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

### **Defeasance of Bonds**

The Order provides for the defeasance of the Bonds when payment of the principal amount of the CIBs and Maturity Amount or Accreted Value of the CABs, plus accrued interest on the CIBs, to their due date (whether such due date be by reason of maturity or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities scheduled to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of an amount sufficient to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent/registrar for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Order provides that "Defeasance

Securities” means any securities and obligations now or hereafter authorized by Texas law that are eligible to discharge obligations such as the Bonds. Current Texas law permits defeasance with the following types of securities (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and, on the date the Board authorizes the defeasance, that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the 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 such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such 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. Also, the Permanent School Fund Guarantee will cease to apply to the Bonds after their defeasance.

**Amendments**

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

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

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds, plus lawfully available funds of the District, if any, will be applied approximately as follows:

	<u><b>The Bonds</b></u>
<b>Sources:</b>	
Principal Amount of the Bonds	\$4,490,000.00
Premium Amount on the Bonds	<u>1,329,539.10</u>
<b>Total Sources of Funds</b>	<b>\$5,819,539.10</b>
<b>Uses:</b>	
Deposit to Escrow Fund	\$5,710,176.64
Costs of Issuance and Underwriter’s Discount	<u>109,362.46</u>
<b>Total Uses of Funds</b>	<b>\$5,819,539.10</b>

## REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds. If the District defaults in the payment of the principal, interest or Maturity Amount on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed on the Bonds, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

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

## BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, New York, 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 security will be issued for each maturity of the CIBS and the CABs, as set forth on page ii hereof, each in the aggregate principal amount or Maturity Amount, as applicable, of such maturity and will be deposited with DTC.

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

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 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 (see "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration").

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



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

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

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

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

### **Future Registration**

In the event the Book-Entry-Only System is discontinued, printed Bonds certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated 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 kind and aggregate principal amount or Maturity Amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

### **Record Date for Interest Payment**

The record date ("Record Date") for the interest payable on any interest payment date for the Bonds means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 shall be required make any transfer or exchange (i) with respect to any Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation on transferability shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Bond.

### **Replacement Bonds**

If any Bond is damaged, mutilated, destroyed, stolen or lost, a new Bond in the same principal amount or Maturity 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 in 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 of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **AD VALOREM TAX PROCEDURES**

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

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

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

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees of the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind powered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 (except as permitted by the next succeeding paragraph) for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; \$25,000 in market value for all residential homesteads (see "Residential Homestead Exemption" below and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation"); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older and persons who are disabled above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner. The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. Pursuant to State law, taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons are frozen to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General"). The foregoing school property tax limitation applies to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

The Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

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

Financial Information Regarding the District” and “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” for a schedule of exemptions allowed by the District.

A city or county may create a tax increment financing district (“TIF”) within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the “incremental value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraised value, in excess of the “frozen” value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate”).

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

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

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

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

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

## **Residential Homestead Exemption**

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

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

See (CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation” herein for a description of legislative changes made during the 84th Texas Legislature that resulted in an increase in the minimum amount of residential homestead exemption.

## **District and Taxpayer Remedies**

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

## **Public Hearing and Rollback Tax Rate**

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

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) 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 district delivers substantially all of its tax bills. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Before the later of September 30 or the 60<sup>th</sup> day after the date that the certified appraisal roll is received by the District, the rate of taxation must be set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may, under certain circumstances, be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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

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

Except with respect to taxpayers who are 65 years of age or older or disabled, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

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

### **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 Denton County. The Appraisal District is governed by a board of five directors appointed by the governing bodies of various Denton County political subdivisions. The District's taxes are collected by the Denton County Tax Assessor-Collector.

The District grants a state mandated \$25,000 general homestead exemption. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation."

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

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

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

The District has not granted a local option, additional exemption for disabled veterans above the amount of the State mandated exemption.

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

The District does not tax non-business personal property.

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

The District does not grant tax abatements.

The District does grant a freeport property exemption.

The District does tax “goods-in transit.”

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

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

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

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

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

### **EMPLOYEES BENEFIT PLAN**

The District’s employees participate in a retirement plan (the “Plan”) with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. The District contributes to a retiree health care through the Texas Public School Retired Employees Group Insurance Program (“TRS Care”), a cost sharing multiple-employer defined benefit post-employment health care plan administered by TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees. For a discussion of the TRS retirement plan, TRS Care and the District’s medical benefit plan, see Notes 8,9, and 10 to the audited financial statements of the District that are attached hereto as Appendix D.

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

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

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the “District Court”) against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the “Commissioner”) and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the \$1.50 maximum maintenance and operations (“M&O”) tax rate had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the “Finance System”) was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the “State”) did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the “Supreme Court”), which rendered decisions in the case on May 29, 2003 (“*West Orange-Cove I*”) and November 22, 2005 (“*West Orange-Cove II*”). After the remand by the Supreme Court back to the District Court in *West Orange-Cove I*, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in *West Orange-Cove I*. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System was unconstitutional in that the Finance System violated Article VIII, Section 1-e of the Texas Constitution because the statutory limit of \$1.50 per \$100.00 of taxable assessed valuation on property taxes levied by school districts for maintenance and operation purposes had become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in Article VII, Section 1 of the Texas Constitution exceeded the maximum amount of funding available under the funding formulas administered by the State; and (3) the Finance System was financially inefficient, inadequate, and unsuitable in that it failed to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by Article VII, Section 1, of the Texas Constitution.

In *West Orange-Cove II*, the Supreme Court’s holding was twofold: (1) that the local M&O tax had become a state property tax in violation of Article VIII, Section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System did not amount to a violation of Article VII, Section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented in the District Court to conclude that school districts did not have meaningful discretion in levying the M&O tax. In reaching its second holding, the Supreme Court, using a test of arbitrariness determined that: the public education system was “adequate,” since it is capable of accomplishing a general diffusion of knowledge; the Finance System was not “inefficient,” because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of “suitability,” since the Finance System was suitable for adequately and efficiently providing a public education.

In reversing the District Court’s holding that the Finance System was unconstitutional under Article VII, Section 1 of the Texas Constitution, the Supreme Court stated:

Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of Article VII, Section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the public school finance system expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts’ contention that the Finance System was constitutionally inefficient, the *West Orange-Cove II* decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995) (“*Edgewood IV*”) that such funding variances may not be unreasonable. The Supreme Court further stated that “[t]he standards of Article VII, Section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have.” The Supreme Court also noted that “[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system,” and the Supreme Court agreed with arguments put forth by the State that the plaintiffs had failed to present sufficient evidence to prove that there was an inability to provide for a “general diffusion of knowledge” without additional facilities.

## **Funding Changes in Response to West Orange-Cove II**

In response to the decision in West Orange-Cove II, the Texas Legislature (the “Legislature”) enacted House Bill 1 (“HB 1”), which made substantive changes in the way the Finance System is funded, as well as other legislation which, among other things, established a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce M&O tax rates, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (HB 1 and other described legislation are collectively referred to herein as the “Reform Legislation”). The Reform Legislation generally became effective at the beginning of the 2006-07 fiscal year of each district.

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

The Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment did not alter the provisions of Chapter 45, Texas Education Code, that authorize districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of such bonds (including the Bonds). Reference is made, in particular, to the information under the heading “THE BONDS – Security” in the Official Statement.

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past State funding systems. Among other possibilities, a district’s boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In *Edgewood IV*, the Supreme 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”). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

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 litigation, or how such legislation or future court orders may affect the District’s financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, 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 the Permanent School Fund guarantee of the Bonds would be adversely affected by any such litigation or legislation. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

## **Current Litigation Related to the Texas Public School Finance System**

As described below, during 2011 and 2012, several lawsuits were filed in district courts of Travis County, Texas, which alleged that the Finance System, as modified by legislation enacted by the Legislature since the decision in West Orange Cove II, and in particular, as modified by Senate Bill 1 in 2011, has resulted in a funding system that violates principles established in West Orange Cove I and West Orange Cove II, and prior decisions of the Supreme Court relating to the constitutionality of the Finance System, and several provisions of the Texas Constitution. In general, each suit presented the legal perspectives and arguments of the different coalitions of school districts represented, but as a general matter, each group challenged the adequacy of funding provided by the Legislature for the Finance System, and the plaintiffs in each suit sought to have an injunction issued to the State and its officials to prevent the distribution of any funds under the current Finance System until a constitutional system is created and sought a declaration that changes in funding for the Finance System since the enactment of HB 1 have effectively converted the local M&O tax into a State property tax in violation of the Texas Constitution. The defendants in the suits include State officials and the State Board of Education (the “State Defendants”). The first suit was filed on October 10, 2011, styled “The Texas Taxpayer & Student Fairness Coalition, et al. vs. Robert Scott, Commissioner of Education et al.” A second suit was filed on December 9, 2011, styled “Calhoun County Independent School District, et al. v Robert Scott, Commissioner of Education, et al.” A third suit was filed on December 13, 2011, styled “Edgewood Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.” A fourth suit was filed on December 23, 2011, styled “Fort Bend Independent School District, et al. v. Robert Scott, Commissioner of Education, et al.” (the “Fort Bend Suit”). The State Defendants filed an answer with respect to each of the first four suits filed, denying the plaintiffs’ allegations, and all of such suits were assigned to the District Court. On February 24, 2012 a plea of intervention to the Fort Bend Suit was filed by seven parents and a group named “Texans for Real Efficiency and Equity in Education.” The intervenors asserted that the Finance System is qualitatively inefficient, and that the Finance System is unconstitutional, in part based on arguments made by other plaintiffs. A fifth suit was filed on June 26, 2012 by individuals and the Texas Charter School Association, styled “Flores, et al. v. Robert Scott, Commissioner of Education, et al.” (the “Charter School Suit”). The petition for the Charter School Suit agreed with the arguments of the school districts in the first four suits filed that the Finance System is unconstitutional and also sought to have an injunction issued against the State Defendants in the same manner as the first four suits. The Charter School Suit added additional grounds that relate to the circumstances of charter schools as a basis for holding the Finance System unconstitutional, including that charter schools receive no funding for



facilities and that the statutory cap on charter schools is unconstitutionally arbitrary. The State Defendants also filed a general denial in the Charter School Suit.

All five suits were consolidated by the District Court, and the trial commenced on October 22, 2012. On February 4, 2013, the District Court rendered a preliminary ruling (the substance of which was ultimately included in a final judgment rendered by the District Court on August 28, 2014, as further described below), but withheld rendering a final judgment until the conclusion of the 83rd Regular Session of the Texas Legislature. The 83rd Regular Session of the Texas Legislature concluded on May 27, 2013, and on June 19, 2013, a hearing was held by the District Court at which the parties to the suits were directed to provide supplemental evidence to the District Court pertaining to new funding provided by the Legislature for the Finance System during the 83rd Regular Session. A trial to consider this evidence began on January 21, 2014 and concluded on February 7, 2014.

On August 28, 2014, the District Court rendered its final ruling, finding the current Finance System unconstitutional for the following reasons: (i) the Finance System effectively imposes a Statewide property tax in violation of the Texas Constitution because school districts lack “meaningful discretion” in the levy, assessment and disbursement of property taxes; (ii) the Finance System is structured, operated and funded in such a manner that prevents it from providing “a constitutionally adequate education for all Texas schoolchildren”; (iii) the Finance System “is constitutionally inadequate because it cannot accomplish, and has not accomplished, a general diffusion of knowledge for all students due to insufficient funding”; and (iv) the Finance System “is financially inefficient because all Texas students do not have substantially equal access to the educational funds necessary to accomplish a general diffusion of knowledge.”

In the final ruling, the District Court enjoined the State from (i) enforcing Chapters 41 and 42 and Section 12.106 of the Education Code and (ii) distributing any money under the current Finance System until the constitutional violations are remedied. However, the District Court stayed the injunction until July 1, 2015, to give the 84th Texas Legislature, which convened on January 13, 2015, an opportunity to cure the constitutional deficiencies in the Finance System. The injunction does not and will not impair the District’s ability to levy, assess and collect ad valorem taxes, at the full rate and in the full amount authorized by law, necessary to make payments on the Bonds and, to the extent the District is entitled to receive State funding assistance for the payment of the Bonds under the current Finance System, the District will continue to be entitled to receive such State funding assistance. In addition, in response to arguments on behalf of the State’s charter schools, the District Court held in its final ruling that it is within the discretion of the Legislature, and not unconstitutional, to fund charter schools differently from other public schools.

The State Defendants/Appellants filed a Notice of Direct Appeal to the Supreme Court on September 26, 2014. Notices of Cross-Direct Appeal were subsequently filed by four other parties. On January 6, 2015, the State Defendants/Appellants filed a Statement of Jurisdiction and Motion for Briefing Schedule requesting the Supreme Court note probable jurisdiction over the appeal and order the filing of appellate briefs in accordance with a proposed briefing schedule.

The Supreme Court noted probable jurisdiction on January 23, 2015 and set the following briefing schedule: Appellants’ briefs were due (and were submitted on) April 13, 2015, Appellees’ briefs were due (and were submitted on) July 2, 2015, and replies were due (and were submitted on) August 11, 2015. It should be noted that the briefing schedule extends beyond the stayed injunction. Though pursuant to its terms, the District Court stayed its injunction until July 1, 2015, the Appellants’ have taken the position that this stay has been automatically extended pending a final ruling by the Texas Supreme Court. See *Neeley v. W. Orange-Cove Consol. Indep. Sch. District*, 176 S.W.3d 746, 754 & n.19 (Tex. 2005) (noting the district court’s injunction was stayed by the State’s notice of appeal and citing as authority Tex. Civ. Prac. & Rem Code 6.01, which exempts the State from filing a supersedeas bond). Oral arguments before the Texas Supreme Court were held on September 1, 2015. The Texas Supreme Court has not provided a timeline for the rendering of their opinion.

The District can make no representations or predictions concerning the effect this litigation or the current ruling by the District Court, and any appeals, including the future ruling of the Texas Supreme Court, may have on the District’s financial condition, revenues or operations. See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Possible Effects of Litigation and Changes in Law on District Bonds.”

### **2013 Legislative Session**

The 83rd Texas Legislature concluded its regular session on May 27, 2013. During the session, the Legislature adopted a biennial budget that “restored” \$3.2 billion of the \$4 billion that was cut from basic state aid for the Finance System during the 82<sup>nd</sup> Texas Legislature and some \$100 million of the \$1.3 billion cut from grant programs during the 82<sup>nd</sup> Texas Legislature. The revenues that were added back to the Finance System do not take into account growing student enrollments in the State. The Legislature did not materially change the Finance System during the session.

### **2015 Legislative Session**

See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2015 Legislation” herein for a description of legislative changes made during the 84th Texas Legislature including the increase in the minimum amount of residential homestead exemption.

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

### Overview

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during subsequent legislative sessions. For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the "Foundation School Program," as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district's property wealth per student increases, State funding to the school district is reduced. As a school district's property wealth per student declines, the Finance System is designed to increase that district's State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

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

The Reform Legislation, which generally became effective at the beginning of the 2006–07 fiscal year, made substantive changes to the Finance System, which are summarized below. While each school district's funding entitlement was calculated based on the same formulas that were used prior to the 2006–07 fiscal year, the Reform Legislation made changes to local district funding by reducing each district's 2005 M&O tax rate by one-third over two years through the introduction of the "State Compression Percentage," with M&O tax levies declining by approximately 11% in fiscal year 2006–07 and approximately another 22% in fiscal year 2007–08. (Prior to the Reform Legislation, the maximum M&O tax rate for most school districts was \$1.50 per \$100 of taxable assessed valuation. Because most school districts levied an M&O rate of \$1.50 in 2005, the application of the Reform Legislation compression formula reduced the majority of school districts' M&O tax rates to \$1.00). Subject to local referenda, a district may increase its local M&O tax rate from \$1.04 up to the statutory limit, which is \$1.17 for most districts.

### State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a "Basic Allotment") for each student in average daily attendance ("ADA"). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district's compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district's basic level of funding, referred to as "Tier One" of the Foundation School Program. The basic level of funding is then "enriched" with additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds and an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds. IFA primarily addresses the debt service needs of property-poor school districts. A New Instructional Facilities Allotment ("NIFA") also is available to help pay operational expenses associated with the opening of a new instructional facility; however, NIFA awards were not funded by the Legislature for either the 2012–13 or the 2014–15 State fiscal biennium. In 2015 the 84th Texas Legislature did appropriate funds in the amount of \$1,445,100,000 for the 2016–17 State fiscal biennium for an increase in the Basic Allotment, EDA, IFA, and NIFA support, as further described below.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the district's local share. EDA and IFA allotments supplement a school district's local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2014–15 fiscal biennium or the 2015–16 school year and debt service assistance on school district bonds that

are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes. For the 2016-17 school year, the Texas Legislature has appropriated \$55.5 million for IFA allotments.

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

As described above, the cost of the basic program is based on an allotment per student known as the “Basic Allotment”. For fiscal year 2014-15, the Basic Allotment is \$5,040, and for fiscal years 2015-16 and 2016-17, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the “cost of education index”, (ii) district-size adjustments for small and mid-size districts and (iii) an adjustment for the sparsity of the district’s student population. The cost of education index and district-size adjustments applied to the Basic Allotment, create what is referred to as the “Adjusted Allotment”. The Adjusted Allotment is used to compute a “regular program allotment,” as well as various other allotments associated with educating students with other specified educational needs

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district’s local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.01 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$74.28 and \$77.53 per cent per weighted student in average daily attendance (“WADA”) for the fiscal year 2015-16 and fiscal year 2016-17, respectively. The second level of Tier Two is generated by tax effort that exceeds the district’s compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for fiscal years 2015-16 and 2016-17. Property-wealthy school districts that have an M&O tax rate that exceeds the district’s compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see “Wealth Transfer Provisions” below).

Because districts with compressed rates of less than \$1.00 have not been receiving the full Basic Allotment, the 84th Texas Legislature amended the Foundation School Program to enable some districts (known as “fractionally funded districts”) to increase their Tier 1 participation by moving the district’s local tax effort that would be equalized under Tier 2 at \$31.95 per penny to the Tier 1 Basic Allotment. The compressed tax rate of a school district that adopted a 2005 M&O Tax Rate below the maximum \$1.50 tax rate for the 2005 tax year can now include the portion of a district’s current M&O tax rate in excess of the first six cents above the district’s compressed tax rate until the district’s compressed tax rate is equal to the state maximum compressed tax rate of \$1.00, thereby eliminating the penalty against the Basic Allotment. For these districts, each one cent of M&O tax levy above the district’s compressed tax rate plus six cents, will have a guaranteed yield based on Tier One funding instead of the \$31.95 Tier Two yield for the fiscal year 2015-16 and fiscal year 2016-17. These conversions are optional for each applicable district in the 2015-16 and 2016-17 fiscal years and are automatic beginning in the 2017-18 fiscal year.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district’s I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the “IFA Guaranteed Yield”) in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. To receive an IFA award, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the fiscal years 2011-12 through 2015-16, no funds were appropriated for new IFA awards by the Texas Legislature, although all prior awards were funded throughout such periods. The 84th Texas Legislature appropriated funds in the amount of \$55,500,000 for new IFA awards to be made during the 2016-17 fiscal year only.

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 same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA), subject to adjustment as described below. For bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance was less than \$35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations granted to the Commissioner under State law. The portion of a district’s local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas

Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. For the 2012-13 and 2014-15 State fiscal biennia, no funds were appropriated by the Texas Legislature for new NIFA allotments. The 84th Texas Legislature did appropriate funds in the amount of \$23,750,000 for each of the 2015-16 and 2016-17 fiscal years for NIFA allotments.

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

The primary source of local funding for school districts is collections from ad valorem taxes levied against the taxable property located in each school district. As noted above, prior to the Reform Legislation, the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value, and the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value at the time the Reform Legislation was enacted. The Reform Legislation required each school district to "compress" its tax rate by an amount equal to the "State Compression Percentage." For fiscal years 2007-08 through 2015-16, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (see "TAX RATE LIMITATIONS" herein).

### **2006 Legislation**

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a "target" funding level per student ("Target Revenue") that is based upon the "hold harmless" principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. As noted above, the Reform Legislation was intended to lower M&O tax rates in order to give school districts "meaningful discretion" in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. Under the Target Revenue system, each school district is generally entitled to receive the same amount of revenue per student as it did in either the 2005-2006 or 2006-07 fiscal year (under existing laws prior to the enactment of the Reform Legislation), as long as the district adopted an M&O tax rate that was at least equal to its compressed rate. The reduction in local M&O taxes resulting from the mandatory compression of M&O tax rates under the Reform Legislation, by itself, would have significantly reduced the amount of local revenue available to fund the Finance System. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction ("ASATR") for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district's Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas. This phase-out of ASATR began with actions adopted by the 83rd Texas Legislature. Beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed.

### **2015 Legislation**

On January 13, 2015, the 84th Texas Legislature convened in regular session, which ended on June 1, 2015. As a general matter, the 84th Texas Legislature did not enact substantive changes to the Finance System. However, of note, Senate Joint Resolution 1, passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. The constitutional amendment was approved by the voters at an election held on November 3, 2015. The amendment is effective for the tax year beginning January 1, 2015.

Senate Bill 1, which was also passed during the 84th Texas Legislature, makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption. The 2016-17 hold harmless legislation also prohibits a school district from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period running through December 31, 2019. An optional homestead exemption reduces both the tax revenue and State aid received by a school district.

## **Wealth Transfer Provisions**

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

The equalized wealth levels that subject Chapter 41 districts to wealth equalization measures for fiscal year 2014–15 are set at (i) \$504,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). For the 2015–16 fiscal year, the first equalized wealth level increases from \$504,000 to \$514,000, however the second equalized wealth level remains at \$319,500. M&O taxes levied above \$1.00 but below \$1.07 per \$100 of taxable value are not subject to the wealth equalization provisions of Chapter 41. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value. Chapter 41 districts may be entitled to receive ASATR from the State in excess of their recapture liability of \$514,000 for the 2015–16 and 2016–17 school years, and certain of such districts may use their ASATR funds to offset their recapture liability.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the Chapter 41 district’s voters; certain Chapter 41 districts may apply ASATR funds to offset recapture and to achieve the statutory wealth equalization requirements, as described above, without approval from voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district’s property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district’s existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

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

The District’s wealth per student for the 2015–16 school year is greater than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options. As a district with wealth per student in excess of the equalized level, the District has elected to reduce its wealth per student by purchasing attendance credits through the payment of tax revenues to the State for redistribution under the Foundation School Program in accordance with Subchapter D of Chapter 41, Texas Education Code. In the 2015–16 school year, the District has budgeted to make a recapture payment of approximately \$135,000 (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Wealth Transfer Provisions”).

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

The District is unable to predict the future actions of courts and the Texas legislature with respect to funding of the Finance System. Changes made to the Finance System as a result of on-going litigation or otherwise could materially affect the financial condition of the

District. See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS - Current Litigation Related to the Texas Public School Finance System.”

### **TAX RATE LIMITATION**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on November 2, 2002 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “State Compression Percentage” multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for fiscal years 2007–08 through 2015–16. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview.” Furthermore, a school district cannot annually increase its tax rate in excess of the district’s “rollback tax rate” without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate.” On September 15, 2012, the voters in the District approved an increase in the District’s M&O tax rate by six cents to \$1.10005 per \$100 of taxable assessed valuation through a tax ratification election.

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

Section 45.0031, Texas Education Code, as amended (“Section 45.0031”), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district’s local share of debt service, and may also take into account Tier One funds allotted to the district. The District has covenanted in the Order to deposit any State allotments provided solely for payment of debt service into the District’s interest and sinking fund upon receipt of such amounts. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for refunding purposes pursuant to Chapter 1207, Texas Government Code, and are not subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has used projected property values to satisfy the \$0.50 threshold test.

*[Remainder of page left blank intentionally.]*

## **RATING**

Moody's Investors Service, Inc. ("Moody's") has assigned a municipal bond rating of "Aaa" to the Bonds based upon the Permanent School Fund Guarantee. Moody's generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee) is "Aa3" by Moody's.

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

The District has outstanding debt that is also rated by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). S&P's rating on the District's outstanding debt is "A+". The District has not applied for a rating from S&P on the Bonds.

## **LEGAL MATTERS**

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

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

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**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as

an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL.”

In rendering its opinion, Bond Counsel to the District will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith, (c) a verification report prepared by Grant Thornton LLP regarding the sufficiency of the amounts deposited to the Escrow Fund to defease the Refunded Bonds, and (d) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

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

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

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

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

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



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

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

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

### **Future and Proposed Legislation**

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

### **State, Local and Foreign Taxes**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than

\$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see "RATING"). 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 District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act, (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.01(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's

name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to

disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

## Current Investments

As of January 31, 2016, the District's investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Local Bank Account	\$24,240,195.35	70.76%
TexSTAR <sup>(A)</sup>	<u>10,019,046.41</u>	<u>29.24%</u>
<b>Total</b>	<b><u>\$34,259,241.76</u></b>	<b><u>100.00%</u></b>

<sup>(A)</sup> The District invests in TexSTAR, which operates pursuant to Chapter 2256 of the Texas Government Code, as amended, as a money market equivalent, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940.

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of the District, the Financial Advisor or the 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 authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”).

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2015, distributions to the ASF amounted to \$172.75 per student and the total amount distributed to the ASF was \$838.67 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, 2015, 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, 2015 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2015 and for a description of the financial results of the PSF for the year ended August 31, 2015, the most recent year for which audited financial information regarding the Fund is available. The 2015 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2015 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, when filed, is incorporated herein and made a part hereof for all purposes.

### **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 endowment 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 making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of 2006, 2008, 2010, 2012 and 2014. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general 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 2014, consists of (i) an equity allocation of 40% (with large cap equities targeted at 16%, small/mid cap equities at 5% and emerging and international large cap equities 19%), (ii) a fixed income allocation of 19% (including a 7% allocation for

emerging market debt) and (iii) an alternative asset allocation of 41% (which includes a private equity allocation of 10% and a real estate allocation of 8%).

For a variety of reasons, each change in asset allocation for the Fund, including the 2014 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, 2015, the Fund's financial assets portfolio was invested as follows: 44.96% in public market equity investments; 14.43% in fixed income investments; 10.80% in absolute return assets; 5.11% in private equity assets; 6.30% in real estate assets; 6.44% in risk parity assets; 5.55% in real return assets; 6.04% in emerging market debt; and 0.37% in cash.

In July 2012 and April 2013, the SBOE also realigned the management of certain of the investment portfolios within the absolute return allocation of the alternative investments and its private equity asset class. These alignments in investment portfolios have created strategic relationships between the external manager and investment staff of the PSF, which has reduced 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 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; 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 three-member SLB, which consists of the elected Commissioner of the General Land Office ("GLO"), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner

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

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund’s financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. The SBOE has established the Committee of Investment Advisors, which consists of independent investment experts each appointed by a member of the SBOE to closely advise the respective SBOE member on investment issues.

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. Since 2005, the Guarantee Program has 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.

The IRS Notice and the Proposed 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.

During fiscal year 2015, PSF staff was tasked with undertaking due diligence with the rating agencies that currently rate the Bond Guarantee Program (see “Ratings of Bonds Guaranteed Under the Guarantee Program” below) regarding ratings maintenance for the Fund in anticipation of consideration by the SBOE of an amendment to the SDBGP Rules and CDBGP Rules (as defined below) to provide for an increase in the multiplier that establishes the State law capacity limitation. 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. As originally approved, the change to the State Law Capacity would have been effective August 22, 2016. However, at its meeting in November, 2015, the SBOE took action to make the change to the State Law Capacity effective on February 1, 2016.

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, 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, 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, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. 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 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.

The SBOE has approved and modified the SDBGP Rules in recent years, most recently in May 2010. Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65>.

### **Charter District Bond Guarantee Program**

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

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

The capacity of the Charter District Bond Guarantee Program is limited to the amount that equals the result of the percentage of the number of students enrolled in open-enrollment charter schools in the State compared to the total number of students enrolled in all public schools in the State multiplied by the available capacity of the Guarantee Program. Available capacity is defined as the maximum amount under SBOE rules, less Capacity Reserve and minus existing guarantees. The CDBGP Rules authorize the Commissioner to determine that ratio based on information provided to the TEA by school districts and open-enrollment charter schools, and the calculation will be made annually, on or about March 1 of each year. As of May 2015 (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 4.36%. As of December, 2015, there were 188 active open-enrollment charter schools in the State, and there were 654 charter school campuses operating under such charters (though as of such date, 19 of such campuses' operations have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, provides that the Commissioner may grant not more than 215 charters through the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters permitted by the statute. 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.

On February 27, 2015, the Attorney General issued an opinion (Op. Tex. Att'y Gen. No. KP-0005 (2015)) in response to a request by the Commissioner for clarification of Section 45.0532, Texas Education Code ("Section 45.0532"), which defines how the capacity of the Charter District Bond Guarantee Program should be calculated. In the opinion, the Attorney General ruled that the

proper method for determining charter district capacity is a limitation on the total amount of charter district bonds that the Commissioner may approve for guarantee in the cumulative amount. The opinion rejected an alternative reading of the statute that would have imposed a limitation on the total amount of charter district bonds that the Commissioner may approve each month, but not a cumulative limitation, and which, over time, could produce Charter District Bond Guarantee Program guarantees potentially exceeding the charter student ratio limitation in Section 45.0532.

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.

With respect to the Charter District Bond Guarantee Program, the Act establishes a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). 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 1/10 of one percent of the principal amount of guaranteed bonds outstanding. The Commissioner has approved a rule governing the calculation and payment amounts into the Charter District Reserve Fund. That rule has been codified at 19 TAC 33.1001, and is available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033aa.html#33.1001>.

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 obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBG Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Since that time, TEA has not approved guarantees under the Charter District Bond Guarantee Program. New guarantees under the Charter District Bond Guarantee Program will not be approved until new capacity for that Program becomes available, which could occur as a result of Fund investment performance, the scheduled increase in the Guarantee Program multiplier, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, or a combination of such circumstances.

### Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Standard & Poor's Rating Service, a Standard & Poor's Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "Ratings" herein.

### Valuation of the PSF and Guaranteed Bonds

#### Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2011	24,701,156,685	29,643,439,794
2012	25,161,994,845	31,284,851,266
2013	25,596,193,826	33,131,028,540
2014	27,592,932,952	38,441,759,636
2015	29,085,524,714 <sup>(2)</sup>	36,217,270,220 <sup>(2)</sup>

<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. At August 31, 2015, land, mineral assets, internally managed discretionary real estate, external discretionary real estate investments and cash managed by the SLB had book values of approximately \$44.80 million, \$13.42 million, \$232.88 million, \$1.91 billion and \$2.60 billion, respectively, and market values of approximately \$377.38 million, \$2.14 billion, \$242.84 million, \$1.89 billion and \$2.6 billion, respectively.

<sup>(2)</sup> At November 30, 2015, the PSF had a book value of \$29,010,996,323 and a market value of \$36,372,415,414 (November 30, 2015 values are based on unaudited data).

#### Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount <sup>(1)</sup>
2011	52,653,930,546
2012	53,634,455,141
2013	55,218,889,156
2014	58,364,350,783
2015	63,955,449,047 <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, 2015, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is \$103,722,905,410, of which \$39,767,456,363 represents interest to be paid. At August 31, 2015, there were \$63,955,449,047 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was \$87,256,574,142 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. Such capacity figures include the Reserve Capacity for the Guarantee Program. As a result of the SBOE actions in November 2015 described above, the State Law Capacity will increase effective February 1, 2016 from a cost value multiplier of 3 times to 3.25 times. Based on the cost value of the Fund at August 31, 2015, had such increase been effective at that date, it would have produced a State Law Capacity of \$94,527,955,321.

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

	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	Number of <u>Issues</u>	Principal Amount <u>Guaranteed</u>	Number of <u>Issues</u>	Principal Amount <u>Guaranteed</u>	Number of <u>Issues</u>	Principal Amount <u>Guaranteed</u>
<u>At 8/31</u>						
2014 <sup>(2)</sup>	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,500	3,117	63,955,449,047

<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> Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program. At November 30, 2015 (based on unaudited data), there were \$64,436,407,282 of bonds guaranteed under the Guarantee Program, representing 3,144 school district issues, aggregating \$63,607,587,282 in principal amount and 29 charter district issues, aggregating \$828,820,000 in principal amount. At November 30, 2015, the capacity of the Charter District Bond Guarantee Program was \$795,479,046 (based on unaudited data).

**Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2015**

The following discussion is derived from the Annual Report for the year ended August 31, 2015, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2015, 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 2015, the Fund balance was \$33.8 billion, a decrease of \$1.1 billion from the prior year, primarily due to disbursement of \$0.8 billion in support of public education. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) with the intent to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were -3.36%, 7.27%, 8.95% and 5.99% 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, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, were 5.79%, 7.69%, and 8.83% 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, 2015, the PSF(SBOE) portion of the Fund had diversified into emerging market 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. Emerging international equities securities will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE. As of August 31, 2015, the SBOE had approved and the PSF(SBOE) made capital commitments to real estate investments in the amount of \$2.32 billion and capital commitments to four private equity limited partnerships in the total amount of \$2.35 billion. Unfunded commitments at August 31, 2015 were \$801 million in real estate and \$982 million in private equity.

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, 2015, the remaining commitments totaled approximately \$1.95 billion.

The PSF(SBOE)'s investment in public equity securities experienced a return of -4.4% during the fiscal year ended August 31, 2015. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 1.5% during the fiscal year and absolute return investments yielded a return of 2.6%. The PSF(SBOE) real estate and private equity investments returned 13.0% and 13.0%, respectively. Risk parity assets produced a return of -9.5%, while real return assets yielded -15.3%. Emerging market debt produced a return of -21.3. The emerging market equity asset class initiated during the year yielded a -15.3% return since inception. Combined, all PSF(SBOE) asset classes produced an investment return of -3.36% for the fiscal year ended August 31,

2015, overperforming the benchmark index of -3.7% by approximately 35 basis points. All PSF(SLB) real assets (including cash) returned 5.79% for the fiscal year ending August 31, 2015.

For fiscal year 2015, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled - \$144.1 million, a decrease of \$5.4 billion from fiscal year 2014 earnings of \$5.3 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2015. In fiscal year 2015, 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, increased 40.1% for the fiscal year ending August 31, 2015. This increase is primarily attributable to the operational costs related to managing alternative investments due to diversification of the Fund, and from generally lower margins on sales of purchased gas.

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 2014 and 2015, the distribution from the SBOE to the ASF totaled \$838.7 million and \$838.7 million, respectively. There was no contribution to the ASF by the SLB in fiscal year 2015.

At the end of the 2015 fiscal year, PSF assets guaranteed \$63.955 billion in bonds issued by 846 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 6,164 school district and charter district bond issues totaling \$138.5 billion in principal amount. During the 2015 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 238, or 8.3%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.6 billion or 9.6%. The guarantee capacity of the Fund increased by \$4.24 billion, or 5.4%, during fiscal year 2015 due to growth in the cost basis of the Fund.

### **2011 Constitutional Amendment**

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

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return. The new calculation base is required to be used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium.

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% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2015, in accordance with the 2016-2017 Distribution Rate determination, the SBOE approved the distribution of \$1.056 billion to the ASF in fiscal year 2016, which represents a per student distribution of \$217.51, based on 2015 final student average daily attendance of 4,854,882.

Changes in the Distribution Rate for each biennial period has been the result of 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. As an illustration of the impact of the broader base for the Distribution Rate calculation, PSF management calculates that the effect on transfers made by the SBOE in 2012-13 was an increase in the total return distribution by approximately \$73.7 million in each year of that biennium. If the SBOE were to maintain a Distribution Rate in future years at the level set for 2012-13, as the value of the real asset investments increase annually, distributions to the ASF would increase in the out years, and the increased amounts distributed from the Fund would be a loss to

either the investment corpus of the PSF managed by SBOE or, should the SLB increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. In addition, the changes made by the amendment are expected to reduce the compounding interest in the Fund that would be derived if those assets remained in the corpus of the Fund. Other factors that may affect the corpus of the Fund that are associated with this change 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. While the SBOE has oversight of the Guarantee Program, it will not have the decision-making power with respect to all transfers to the ASF, as was the case in the past, which could adversely affect the ability of the SBOE to optimally manage its portion of the PSF assets.

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

### **Other Events and Disclosures**

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. 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>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. 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 \$30.0 million and \$30.2 million for the administration of the PSF for fiscal years 2014 and 2015, respectively, and \$30.2 million for each of the fiscal years 2016 and 2017.

As of August 31, 2015, 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.

The SBOE is a named defendant in litigation described in the Official Statement pertaining to the Bonds that has challenged the constitutionality of the Texas public school finance system, and which, among other relief requested, seeks an injunction to prohibit the State and its officials from distributing any funds under the current finance system until a constitutional system is created. The case was filed in State District Court, which has issued a ruling, and that ruling has been appealed to the State Supreme Court. The TEA does not anticipate that the security for payment of bonds guaranteed under the Guarantee Program would be adversely affected by such litigation.

### **PSF Continuing Disclosure Undertaking**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, 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 15c-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 <http://emma.msrb.org/IssueView/NonCUSIP9IssueDetails.aspx?id=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.

### **Material 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; and (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. (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.

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

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The 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 Underwriter 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 Underwriter's written request and 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 execute a general or special consent to service of process in any jurisdiction.

## **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 an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12, as amended (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

### **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1 through 14) in and in Appendix D. The District will update and provide the information in Tables 1 through 14 in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" within six months after the end of each fiscal year ending in and after 2016. The District will additionally provide audited financial statements within 12 months after the end of each fiscal year ending in or after 2016. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be 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.

The District's current fiscal year end is August 31. Accordingly, the District must provide updated information included in Tables 1 through 14 in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) as described in the preceding paragraph. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified below or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

### **Event Notices**

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

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

### **Availability of Information**

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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.

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

### **Compliance with Prior Undertakings**

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

## **VERIFICATION OF ARITHMETICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by RBC Capital Markets, LLC on behalf of the District relating to (a) computation of the sufficiency of the anticipated receipts from the Escrowed Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the Refunded Bonds, and (b) computation of the yields on Escrowed Securities and the Bonds will be verified by Grant Thornton LLP, certified public accountants. Such computations will be completed using certain assumptions and information provided by RBC Capital Markets, LLC on behalf of the District. Grant Thornton LLP will restrict its procedures to recalculating the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

## **LITIGATION**

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

## **FINANCIAL ADVISOR**

In its role as Financial Advisor, RBC Capital Markets, LLC, has relied on the District for certain information concerning the District and the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds.

In the normal course of business, the Financial Advisor may also from time to time conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

## **UNDERWRITING**

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriter's discount of \$41,232.70. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed, from time to time, by the Underwriter.

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

The Underwriter is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

## **FORWARD LOOKING STATEMENTS**

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

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

## **CONCLUDING STATEMENT**

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

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## MISCELLANEOUS

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

This Official Statement has been approved by the Pricing Officer of the District for distribution by the Underwriter in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

/s/ Liz Stewart  
\_\_\_\_\_  
Pricing Officer

# SCHEDULE I

## SCHEDULE OF BONDS TO BE REFUNDED

			Total							
	Original	Original	Principal	Maturities		Principal	Maturity	Principal	Maturity	
	Dated	Principal	Amount	Being		Amount	Amount	Amount	Amount	
Series	Date	Amount	Outstanding	Refunded		Outstanding	Outstanding	Being	Being	
								Refunded	Refunded	
									Redemption	
									Date	
Unlimited Tax	10/10/2006	\$9,460,000	\$ 8,715,000	08/15/17	(A)	\$90,000.00	--	\$90,000.00	--	8/15/2016 @ Par
Refunding				08/15/18	(A)	95,000.00	--	95,000.00	--	8/15/2016 @ Par
Bonds,				08/15/19	(A)	95,000.00	--	95,000.00	--	8/15/2016 @ Par
Series 2006				08/15/20	(B)	100,000.00	--	100,000.00	--	8/15/2016 @ Par
				08/15/21	(B)	105,000.00	--	105,000.00	--	8/15/2016 @ Par
				08/15/22	(B)	110,000.00	--	110,000.00	--	8/15/2016 @ Par
				08/15/23	(C)	115,000.00	--	115,000.00	--	8/15/2016 @ Par
				08/15/24	(C)	120,000.00	--	120,000.00	--	8/15/2016 @ Par
				08/15/25	(C)	125,000.00	--	125,000.00	--	8/15/2016 @ Par
				08/15/26	(D)	130,000.00	--	130,000.00	--	8/15/2016 @ Par
				08/15/27	(D)	135,000.00	--	135,000.00	--	8/15/2016 @ Par
				08/15/28	(D)	140,000.00	--	140,000.00	--	8/15/2016 @ Par
				08/15/29	(D)	145,000.00	--	145,000.00	--	8/15/2016 @ Par
				08/15/30	(E)	150,000.00	--	150,000.00	--	8/15/2016 @ Par
				08/15/31	(E)	155,000.00	--	155,000.00	--	8/15/2016 @ Par
				08/15/32	(E)	165,000.00	--	165,000.00	--	8/15/2016 @ Par
				08/15/33	(E)	170,000.00	--	170,000.00	--	8/15/2016 @ Par
				08/15/34	(F)	205,000.00	1,715,000.00	205,000.00	1,715,000.00	8/15/2016 @ Par
				08/15/35	(F)	200,000.00	1,940,000.00	200,000.00	1,940,000.00	8/15/2016 @ Par
				08/15/36	(G)	1,940,000.00	--	1,940,000.00	--	8/15/2016 @ Par
						<b>\$4,490,000.00</b>	<b>\$3,655,000.00</b>	<b>\$4,490,000.00</b>	<b>\$3,655,000.00</b>	

(A) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2019.

(B) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2022.

(C) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2025.

(D) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2029.

(E) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2033.

(F) Represents a capital appreciation bond.

(G) Represents a mandatory sinking fund redemption payment for a term bond with a final maturity of 8/15/2038.

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

<b><u>Date</u></b>	<b><u>CAB 08/15/34 @3.25%</u></b>	<b><u>CAB 08/15/35 @3.31%</u></b>
05/19/16	\$2,777.15	\$2,658.70
08/15/16	2,798.66	2,679.65
02/15/17	2,844.14	2,724.00
08/15/17	2,890.35	2,769.08
02/15/18	2,937.32	2,814.91
08/15/18	2,985.05	2,861.49
02/15/19	3,033.56	2,908.85
08/15/19	3,082.86	2,956.99
02/15/20	3,132.95	3,005.93
08/15/20	3,183.86	3,055.68
02/15/21	3,235.60	3,106.25
08/15/21	3,288.18	3,157.66
02/15/22	3,341.61	3,209.92
08/15/22	3,395.91	3,263.04
02/15/23	3,451.10	3,317.05
08/15/23	3,507.18	3,371.94
02/15/24	3,564.17	3,427.75
08/15/24	3,622.09	3,484.48
02/15/25	3,680.95	3,542.15
08/15/25	3,740.76	3,600.77
02/15/26	3,801.55	3,660.36
08/15/26	3,863.32	3,720.94
02/15/27	3,926.10	3,782.52
08/15/27	3,989.90	3,845.12
02/15/28	4,054.74	3,908.76
08/15/28	4,120.63	3,973.45
02/15/29	4,187.59	4,039.21
08/15/29	4,255.64	4,106.06
02/15/30	4,324.79	4,174.01
08/15/30	4,395.07	4,243.09
02/15/31	4,466.49	4,313.32
08/15/31	4,539.07	4,384.70
02/15/32	4,612.83	4,457.27
08/15/32	4,687.79	4,531.04
02/15/33	4,763.96	4,606.02
08/15/33	4,841.38	4,682.25
02/15/34	4,920.05	4,759.75
08/15/34	5,000.00	4,838.52
02/15/35		4,918.60
08/15/35		5,000.00

**APPENDIX A**

**FINANCIAL INFORMATION REGARDING THE DISTRICT**



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

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

2015/16 Total Assessed Valuation.....	\$ 1,835,927,777
2015/16 Taxable Assessed Valuation.....	\$ 1,357,685,397 <sup>(B)</sup>
<u>2015/16 Exemptions</u>	<u>Total</u>
Residential Homestead/10% Residential Cap.....	\$ 74,370,830
Over 65/Disabled.....	5,902,565
Disabled/Deceased Veterans.....	2,769,664
Freeport Exemption.....	420,611
Productivity Loss.....	394,778,710
Other.....	-
Total (26.05% of Total Assessed Valuation).....	<u>\$ 478,242,380</u>

<sup>(A)</sup> Source: Denton Central Appraisal District ("DCAD"). Certified values are subject to change throughout the year as contested values are resolved and the DCAD updated records.

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

**Table 2  
GENERAL OBLIGATION DEBT OUTSTANDING<sup>(A)(B)</sup>**

Unlimited Tax Bonds Outstanding (as of May 1, 2016).....	\$ 90,181,207 <sup>(C)</sup>
Less: The Refunded Bonds .....	4,490,000
Plus: The Bonds.....	4,490,000
Less: Interest & Sinking Fund Balance (as of February 15, 2016).....	(4,889,172)
Net Unlimited Tax Debt.....	<u>\$ 85,292,035</u>
Ratio Net Debt to Assessed Valuation .....	6.28%

<sup>(A)</sup> See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

<sup>(B)</sup> Excludes interest accreted on capital appreciation bonds.

<sup>(C)</sup> Outstanding Debt Service includes the debt service on the District's Unlimited Tax School Building Bonds, Series 2016 (the "Series 2016 New Money Bonds") that delivered on April 12, 2016.

Estimated 2016 District Population <sup>(A)</sup>	7,599	Per Capita Net Taxable Valuation	\$ 178,666
2015/16 Enrollment	2,243	Per Capita Total Valuation	\$ 241,601
Area (square miles)	48	Per Capita Net Debt	\$ 11,224

<sup>(A)</sup> Source: Municipal Advisory Council of Texas.

**Table 3**  
**ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT STATEMENT**

Taxing Body	Amount <sup>(A)</sup>	As of	% Overlap	\$ Overlap
Argyle, Town of	\$ 6,529,000	04/15/16	99.31%	\$ 6,483,950
Bartonville, Town of	550,000	04/15/16	51.18%	281,490
Denton, City of	604,570,000	04/15/16	1.67%	10,096,319
Denton County	634,275,000	04/15/16	1.81%	11,480,378
Flower Mound, Town of	132,220,000	04/15/16	2.58%	3,411,276
Northlake, Town of	5,970,000	04/15/16	3.97%	237,009
Total Net Overlapping Debt				<u>\$ 31,990,421</u>
<b>Argyle ISD</b>	<b>\$ 90,181,207 <sup>(B)</sup></b>	<b>04/15/16</b>	<b>100.00%</b>	<b><u>90,181,207 <sup>(B)</sup></u></b>
Total Direct and Overlapping Debt				<u><u>\$ 122,171,628</u></u>
Ratio Direct and Overlapping Debt to Total Assessed Valuation .....				6.65% <sup>(B)</sup>
Ratio Direct and Overlapping Debt to Taxable Assessed Valuation .....				9.00% <sup>(B)</sup>
Per Capita Overlapping Debt .....				\$ 16,077

<sup>(A)</sup> Gross Debt.

<sup>(B)</sup> Includes the Series 2016 New Money Bonds and includes the Bonds. Excludes the Refunded Bonds.

Source: Texas Municipal Reports.

**2015 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES**

Argyle, Town of .....	\$0.39750
Bartonville, Town of.....	0.19294
Denton, City of.....	0.68975
Denton County.....	0.26200
Flower Mound, Town of.....	0.43900
Northlake, Town of.....	0.29500

Source: DCAD. See "ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT STATEMENT" for information concerning overlapping territory percentages for these entities.

**Table 4**  
**PROPERTY TAX RATES AND COLLECTIONS**

<b>Tax Year</b>	<b>Taxable Assessed Valuation</b>	<b>Tax Rate</b>	<b>Percent Collections</b>		<b>Fiscal Year Ended</b>
			<b>Current</b>	<b>Total<sup>(A)</sup></b>	
2010	\$ 1,055,451,163	\$1.4401	101.56%	103.42%	08-31-11
2011	1,107,579,738	1.4605	99.08%	100.88%	08-31-12
2012	1,091,534,971	1.4801	101.02%	103.52%	08-31-13
2013	1,108,070,127	1.4751	101.69%	103.05%	08-31-14
2014	1,219,308,192	1.5701	100.97%	101.76%	08-31-15
	<b>Five Year Average.....</b>		<b>100.86%</b>	<b>102.53%</b>	
2015	\$ 1,357,685,397	\$1.5701	97.00% <sup>(B)</sup>	97.10% <sup>(B)</sup>	08-31-16

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

<sup>(B)</sup> Collections in process. As of March 31, 2016.

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

**Table 5**  
**TAX RATE DISTRIBUTION**

	<b><u>2015/16</u></b>	<b><u>2014/15</u></b>	<b><u>2013/14</u></b>	<b><u>2012/13</u></b>	<b><u>2011/12</u></b>
Local Maintenance <sup>(A)</sup>	\$1.10005 <sup>(B)</sup>	\$1.10005 <sup>(B)</sup>	\$1.10005 <sup>(B)</sup>	\$1.10005 <sup>(B)</sup>	\$1.04050
Interest & Sinking	<u>0.47000</u>	<u>0.47000</u>	<u>0.37500</u>	<u>0.38000</u>	<u>0.42000</u>
Total	<b><u>\$1.57005</u></b>	<b><u>\$1.57005</u></b>	<b><u>\$1.47505</u></b>	<b><u>\$1.48005</u></b>	<b><u>\$1.46050</u></b>

<sup>(A)</sup> See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

<sup>(B)</sup> The levy of a \$1.10005 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on September 15, 2012. Prior to such ratification, the District was limited to a \$1.04005 tax rate for maintenance and operations. See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

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

**Table 6**  
**VALUATION AND FUNDED DEBT HISTORY**

<b>Fiscal Year Ending <u>August 31</u></b>	<b>Taxable Assessed <u>Valuation</u></b>	<b>Change in <u>TAV</u></b>	<b>Principal Amount of Funded Debt <u>Outstanding</u></b>	<b>Ratio <u>Debt to A.V.</u></b>
2011	\$ 1,055,451,163	-0.59%	\$54,200,375	5.14%
2012	1,107,579,738	4.94%	53,390,269	4.82%
2013	1,091,534,971	-1.45%	52,214,339	4.78%
2014	1,108,070,127	1.51%	84,465,743	7.62%
2015	1,219,308,192	10.04%	85,706,207	7.03%
2016	1,357,685,397	11.35%	88,840,743 <sup>(A)</sup>	6.54% <sup>(A)</sup>

<sup>(A)</sup> Projected for fiscal year end. Includes the Series 2016 New Money Bonds and includes the Bonds. Excludes the Refunded Bonds.

**Table 7**  
**HISTORICAL TOP TEN TAXPAYERS**

**PRINCIPAL TAXPAYERS AND THEIR 2015 TAXABLE ASSESSED VALUATIONS:**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>% T.A.V.</b></u>
Toll Dallas TX LLC	Real Estate	\$ 6,595,085	0.49%
Highland Homes Ltd.	Real Estate	5,862,133	0.43%
Union Pacific Railroad Company	Rail Road	5,335,480	0.39%
CTMGT Montalcino LLC	Real Estate	5,223,512	0.38%
Lee, Dennis Nae and Sunok	Real Estate	4,500,000	0.33%
Devon Energy Production Co., LP	Oil & Gas	4,015,416	0.30%
GTE Southwest	Utility	3,925,900	0.29%
Denton Country Club	Commercial	3,850,000	0.28%
Oncor Electric Delivery Co.	Utility	3,697,150	0.27%
Drees Custom Homes LLP	Real Estate	3,675,828	0.27%
<b>Total.....</b>		<b>\$ 46,680,504</b>	<b>3.44%</b>

**PRINCIPAL TAXPAYERS AND THEIR 2014 TAXABLE ASSESSED VALUATIONS:**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>% T.A.V.</b></u>
Hillwood O & G Operating Co., LP	Oil & Gas	\$ 9,246,513	0.76%
Harvest Phase 1 LLC	Real Estate	7,330,113	0.60%
CTMGT Montalcino LLC	Real Estate	6,704,512	0.55%
Devon Energy Production Co., LP	Oil & Gas	4,879,406	0.40%
Union Pacific Railroad Company	Rail Road	4,856,120	0.40%
Lee, Dennis Nae and Sunok	Real Estate	4,500,000	0.37%
Denton Country Club	Commercial	3,850,000	0.32%
XTO Energy, Inc.	Oil & Gas	3,695,243	0.30%
GTE Southwest	Utility	3,687,100	0.30%
Highland Homes Ltd.	Real Estate	3,311,799	0.27%
<b>Total.....</b>		<b>\$ 52,060,806</b>	<b>4.27%</b>

**PRINCIPAL TAXPAYERS AND THEIR 2013 TAXABLE ASSESSED VALUATIONS:**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>% T.A.V.</b></u>
Hillwood O & G Operating Co., LP	Oil & Gas	\$ 4,445,105	0.40%
CTMGT Montalcino LLC	Real Estate	4,392,793	0.40%
Union Pacific Railroad Company	Rail Road	4,331,340	0.39%
Lee, Dennis Nae and Sunok	Real Estate	4,300,000	0.39%
Devon Energy Production Co., LP	Oil & Gas	3,693,414	0.33%
Denton Country Club	Commercial	3,655,709	0.33%
Verizon Southwest	Utility	3,605,940	0.33%
Denkmann Associates	Real Estate	3,385,893	0.31%
Oncor Electric Delivery Co.	Utility	3,331,130	0.30%
Advanced Lightning Tech	Manufacturer	3,051,866	0.28%
<b>Total.....</b>		<b>\$ 38,193,190</b>	<b>3.45%</b>

Source: DCAD and District Records.

**Table 8**  
**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY<sup>(A)</sup>**

<b>Property Use Category</b>	<b>Total Tax Roll for Fiscal Years</b>				
	<b><u>2015/16</u></b>	<b><u>2014/15</u></b>	<b><u>2013/14</u></b>	<b><u>2012/13</u></b>	<b><u>2011/12</u></b>
Real Property					
Single-Family Residential	\$ 1,002,016,873	\$ 867,338,958	\$ 786,808,886	\$ 761,362,400	\$ 759,671,821
Multi-Family Residential	143,492	128,492	130,097	130,097	133,874
Vacant Lots/Tracts	56,373,795	42,323,212	34,013,955	30,953,222	33,130,084
Acreage (Land Only)	409,691,585	375,255,119	390,761,887	390,681,824	396,612,421
Farm and Ranch Improvements	231,436,563	215,903,085	198,776,193	197,846,065	197,684,925
Commercial and Industrial	54,719,609	50,686,719	48,756,153	45,884,097	44,192,376
Oil, Gas and Other Minerals	15,456,327	28,442,296	19,976,571	31,626,173	56,520,501
Inventory	21,466,434	18,358,332	6,761,647	4,837,717	4,223,087
Tangible Personal Property					
Business	19,859,696	18,919,125	17,046,184	15,447,909	14,671,928
Other	339,605	381,791	403,011	345,971	421,023
Real & Tangible Personal Property					
Utilities	24,423,798	22,635,443	23,894,576	23,885,134	20,303,945
<b>Total Real &amp; Tang. Per. Prop.</b>	<b><u>\$ 1,835,927,777</u></b>	<b><u>\$ 1,640,372,572</u></b>	<b><u>\$ 1,527,329,160</u></b>	<b><u>\$ 1,503,000,609</u></b>	<b><u>\$ 1,527,565,985</u></b>
Less Exemptions:					
Residential Homestead/ 10% Residential Cap	\$ 74,370,830	\$ 38,741,427	\$ 35,680,031	\$ 35,050,329	\$ 38,379,575
Over 65/Disabled	5,902,565	5,603,800	5,311,997	5,019,637	4,487,889
Disabled/Deceased Veterans	2,769,664	2,129,791	1,757,699	2,032,645	1,841,271
Freeport Exemption	420,611	449,569	251,572	415,523	654,546
Productivity Loss	394,778,710	374,057,319	376,133,465	368,777,730	374,605,089
Other	-	82,474	124,269	169,774	17,877
<b>Total Exemptions</b>	<b><u>\$ 478,242,380</u></b>	<b><u>\$ 421,064,380</u></b>	<b><u>\$ 419,259,033</u></b>	<b><u>\$ 411,465,638</u></b>	<b><u>\$ 419,986,247</u></b>
<b>Taxable Assessed Valuation<sup>(B)</sup></b>	<b><u>\$ 1,357,685,397</u></b>	<b><u>\$ 1,219,308,192</u></b>	<b><u>\$ 1,108,070,127</u></b>	<b><u>\$ 1,091,534,971</u></b>	<b><u>\$ 1,107,579,738</u></b>

<sup>(A)</sup> Source: DCAD and State Property Tax Reports. Certified values are subject to change throughout the year as contested values are resolved and the DCAD updated records.

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

**Table 9**  
**PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY**

<b>Property Use Category</b>	<b>Percent of Total Tax Roll for Fiscal Years</b>				
	<b><u>2015/16</u></b>	<b><u>2014/15</u></b>	<b><u>2013/14</u></b>	<b><u>2012/13</u></b>	<b><u>2010/11</u></b>
Real Property					
Single-Family Residential	54.58%	52.87%	51.52%	50.66%	49.73%
Multi-Family Residential	0.01%	0.01%	0.01%	0.01%	0.01%
Vacant Lots/Tracts	3.07%	2.58%	2.23%	2.06%	2.17%
Acreage (Land Only)	22.32%	22.88%	25.58%	25.99%	25.96%
Farm and Ranch Improvements	12.61%	13.16%	13.01%	13.16%	12.94%
Commercial and Industrial	2.98%	3.09%	3.19%	3.05%	2.89%
Oil, Gas and Other Minerals	0.84%	1.73%	1.31%	2.10%	3.70%
Inventory	1.17%	1.12%	0.44%	0.32%	0.28%
Tangible Personal Property					
Business	1.08%	1.15%	1.12%	1.03%	0.96%
Other	0.02%	0.02%	0.03%	0.02%	0.03%
Real & Tangible Personal Property					
Utilities	1.33%	1.38%	1.56%	1.59%	1.33%
Special Inventory	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

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

<b>Fiscal Year Ending 8/31</b>	<b>Outstanding Debt Service Requirements<sup>(A)</sup></b>		<b>Less: The Refunded Bonds</b>	<b>Plus: The Bonds</b>		<b>Total Debt Service Requirements</b>	<b>Percent of Principal Retired to Total Debt Service</b>
	<b><u>Principal</u></b>	<b><u>Interest</u></b>		<b><u>Principal</u></b>	<b><u>Interest</u></b>		
2016	\$1,290,463.70	\$4,803,284.22	\$86,481.26	\$50,000.00	\$32,345.57	\$6,089,612.23	
2017	\$1,559,496.90	5,110,366.85	262,962.52	100,000.00	134,400.00	6,641,301.23	
2018	\$1,931,566.40	5,135,097.35	264,362.52	105,000.00	132,400.00	7,039,701.23	
2019	\$2,441,789.29	5,136,374.46	260,562.52	105,000.00	130,300.00	7,552,901.23	
2020	\$2,035,425.40	5,075,438.35	261,762.52	110,000.00	128,200.00	7,087,301.23	10.37%
2021	\$2,125,199.40	4,992,364.35	262,762.52	115,000.00	126,000.00	7,095,801.23	
2022	\$2,379,491.60	4,740,047.15	263,562.52	115,000.00	123,700.00	7,094,676.23	
2023	\$2,711,330.80	3,988,532.95	264,162.52	115,000.00	120,250.00	6,670,951.23	
2024	\$3,219,051.60	3,483,162.15	264,562.52	120,000.00	116,800.00	6,674,451.23	
2025	\$3,360,482.05	3,343,331.70	264,762.52	125,000.00	113,200.00	6,677,251.23	25.68%
2026	\$3,502,087.40	3,206,638.85	264,762.52	130,000.00	108,200.00	6,682,163.73	
2027	\$2,721,385.00	3,983,716.25	264,400.02	135,000.00	103,000.00	6,678,701.23	
2028	\$2,499,045.00	3,891,406.25	263,831.26	140,000.00	97,600.00	6,364,219.99	
2029	\$2,557,560.00	3,833,578.75	263,056.26	145,000.00	92,000.00	6,365,082.49	
2030	\$2,401,832.00	3,987,218.00	262,075.00	150,000.00	86,200.00	6,363,175.00	40.85%
2031	\$2,455,000.00	3,938,370.00	260,700.00	155,000.00	80,200.00	6,367,870.00	
2032	\$3,820,000.00	2,566,795.00	264,112.50	165,000.00	74,000.00	6,361,682.50	
2033	\$4,300,000.00	2,088,885.00	262,100.00	170,000.00	67,400.00	6,364,185.00	
2034	\$3,080,000.00	3,409,272.50	1,799,875.00	345,000.00	1,010,600.00	6,044,997.50	
2035	\$2,975,000.00	3,511,547.50	2,024,875.00	380,000.00	1,200,600.00	6,042,272.50	59.65%
2036	\$4,845,000.00	1,647,657.50	2,024,875.00	1,515,000.00	60,600.00	6,043,382.50	
2037	\$4,355,000.00	1,433,047.50	-	-	-	5,788,047.50	
2038	\$4,550,000.00	1,236,988.75	-	-	-	5,786,988.75	
2039	\$4,755,000.00	1,030,360.00	-	-	-	5,785,360.00	
2040	\$4,245,000.00	813,600.00	-	-	-	5,058,600.00	84.40%
2041	\$4,480,000.00	645,075.00	-	-	-	5,125,075.00	
2042	\$4,685,000.00	439,625.00	-	-	-	5,124,625.00	
2043	\$4,900,000.00	224,750.00	-	-	-	5,124,750.00	100.00%
<b>TOTAL</b>	<b><u>\$90,181,206.54</u></b>	<b><u>\$87,696,531.38</u></b>	<b><u>\$10,410,606.50</u></b>	<b><u>\$4,490,000.00</u></b>	<b><u>\$4,137,995.57</u></b>	<b><u>\$176,095,126.99</u></b>	

<sup>(A)</sup> Outstanding Debt Service includes the debt service on the District's Series 2016 New Money Bonds that delivered on April 12, 2016.

**Table 11**  
**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING**  
**UNLIMITED TAX DEBT SERVICE REQUIREMENTS**

Projected Annual Principal and Interest Requirements, Fiscal Year Ending August 31, 2016	\$ 6,089,612 <sup>(A)</sup>
\$0.4510 Tax Rate @ 99.5% Collection Produces <sup>(B)</sup>	\$ 6,092,545
Projected Maximum Principal and Interest Requirements, Fiscal Year Ending August 31, 2019	\$ 7,552,901 <sup>(A)</sup>
\$0.5600 Tax Rate @ 99.5% Collection Produces <sup>(B)</sup>	\$ 7,565,023

<sup>(A)</sup> Includes the District's 2016 New Money Bonds. Includes the Bonds. Excludes the Refunded Bonds.

<sup>(B)</sup> Based on 2015/16 Taxable Valuation of \$1,357,685,397.

**AUTHORIZED BUT UNISSUED BONDS**

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Unissued Balance</u>
School Buildings	10-May-14	\$ 45,000,000	\$ -

The District has no authorized but unissued bonds. The District does not anticipate issuance of additional debt in the next 12 months.

**Table 12**  
**GENERAL FUND BALANCE SHEET**

	Fiscal Years Ending August 31,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>					
Cash and Temporary Investments	\$ 5,284,144	\$ 5,861,615	\$ 7,193,487	\$ 9,178,526	\$ 7,020,864
Receivables:					
Taxes Receivable, Net	327,831	243,860	204,629	240,476	277,008
Receivables from Other Governments	1,155,275	900,555	54,586	-	128,035
Due from Other Funds	1,700	2,400	500	-	-
Other Receivables	8,019	7,718	-	-	-
<b>Total Assets</b>	<b><u>\$ 6,776,969</u></b>	<b><u>\$ 7,016,148</u></b>	<b><u>\$ 7,453,202</u></b>	<b><u>\$ 9,419,002</u></b>	<b><u>\$ 7,425,907</u></b>
<b>Liabilities:</b>					
Current Liabilities:					
Accounts Payable	\$ 342,300	\$ 309,395	\$ 564,125	\$ 512,321	\$ 132,897
Payroll Deduction & Withholdings	-	84,055	88	104,395	-
Accrued Wages Payable	735,426	627,928	574,748	526,780	650,011
Due to Other Funds/Governments	106,498	20	5,066	475,497	1,366,493
Accrued Expenditures	91,325	67,996	60,409	53,274	47,631
Unearned Revenue	-	19,152	483,511	2,542,089	277,008
<b>Total Liabilities</b>	<b><u>\$ 1,275,549</u></b>	<b><u>\$ 1,108,546</u></b>	<b><u>\$ 1,687,947</u></b>	<b><u>\$ 4,214,356</u></b>	<b><u>\$ 2,474,040</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue -					
Property Taxes	\$ 327,831	\$ 243,860	\$ 204,629	\$ -	\$ -
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 327,831</u></b>	<b><u>\$ 243,860</u></b>	<b><u>\$ 204,629</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Fund Balance:</b>					
Other Assigned Fund Balance	\$ -	\$ 236,528	\$ 200,000	\$ 516,484	\$ -
Unassigned Fund Balance	5,173,589	5,427,214	5,360,626	4,688,162	4,951,867
<b>Total Fund Balances</b>	<b><u>\$ 5,173,589</u></b>	<b><u>\$ 5,663,742</u></b>	<b><u>\$ 5,560,626</u></b>	<b><u>\$ 5,204,646</u></b>	<b><u>\$ 4,951,867</u></b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b><u>\$ 6,776,969</u></b>	<b><u>\$ 7,016,148</u></b>	<b><u>\$ 7,453,202</u></b>	<b><u>\$ 9,419,002</u></b>	<b><u>\$ 7,425,907</u></b>

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



**Table 13**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

	Fiscal Years Ending August 31,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Beginning Fund Balance</b>	<b>\$ 5,663,742</b>	<b>\$ 5,560,626</b>	<b>\$ 5,204,646</b>	<b>\$ 4,951,867</b>	<b>\$ 4,119,361</b>
<b><u>Revenues:</u></b>					
Local and Intermediate Sources	\$ 13,732,472	\$ 12,771,795	\$ 12,611,406	\$ 11,980,858	\$ 11,880,697
State Sources	3,761,584	3,579,193	3,076,703	3,356,260	3,756,161
Federal Sources	73,336	53,610	50,416	67,826	57,461
<b>Total Revenues</b>	<b>\$ 17,567,392</b>	<b>\$ 16,404,598</b>	<b>\$ 15,738,525</b>	<b>\$ 15,404,944</b>	<b>\$ 15,694,319</b>
<b><u>Expenditures:</u></b>					
Instruction	\$ 10,097,331	\$ 9,168,881	\$ 8,420,165	\$ 7,927,694	\$ 7,582,696
Instructional Resources & Media	225,351	227,743	159,618	214,319	216,307
Curriculum & Instructional Staff Dev	41,831	43,594	66,872	73,233	68,113
Instructional Leadership	169,468	124,133	118,359	113,767	119,012
School Leadership	1,067,922	966,665	983,512	985,676	1,042,330
Guidance, Counseling & Eval Services	396,057	379,147	367,810	369,803	369,697
Health Services	203,306	194,838	165,792	160,063	169,155
Pupil Transportation	571,030	514,540	491,460	538,700	448,314
Extracurricular Activities	1,115,662	962,204	894,651	908,377	1,027,504
General Administration	1,002,280	881,732	635,402	698,674	626,201
Facilities Maintenance & Operations	1,982,109	1,852,979	1,843,283	1,866,064	2,518,404
Data Processing & Security	659,460	494,678	337,142	305,775	337,235
Capital Outlay	-	861,000	3,464,211	990,906	-
Intergovernmental Charges	525,738	552,758	898,601	1,129,881	336,845
<b>Total Expenditures</b>	<b>\$ 18,057,545</b>	<b>\$ 17,224,892</b>	<b>\$ 18,846,878</b>	<b>\$ 16,282,932</b>	<b>\$ 14,861,813</b>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (490,153)	\$ (820,294)	\$ (3,108,353)	\$ (877,988)	\$ 832,506
Extraordinary Item - Insurance	\$ -	\$ 923,410	\$ 3,464,333	\$ 1,130,767	\$ -
Net Change in Fund Balances	\$ (490,153)	\$ 103,116	\$ 355,980	\$ 252,779	\$ 832,506
<b>Ending Fund Balance - August 31</b>	<b>\$ 5,173,589</b>	<b>\$ 5,663,742</b>	<b>\$ 5,560,626</b>	<b>\$ 5,204,646</b>	<b>\$ 4,951,867</b>

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

**Table 14**  
**STATEMENT OF ACTIVITIES**

**Fiscal Year Ending August 31,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 1,377,337	\$ 1,366,531	\$ 1,100,299	\$ 1,279,991	\$ 835,398
Operating Grants & Contributions	1,489,168	1,347,116	1,172,659	1,062,026	1,905,667
Total Program Revenues	\$ 2,866,505	\$ 2,713,647	\$ 2,272,958	\$ 2,342,017	\$ 2,741,065
<b>General Revenues:</b>					
Property Taxes	\$ 18,989,196	\$ 16,508,333	\$ 16,296,345	\$ 15,972,837	\$ 15,308,548
State Aid - Formula	2,873,501	2,724,492	2,351,944	2,602,622	3,006,024
Investment Earnings	195,735	93,770	105,623	103,112	356,073
Other	123,770	961,359	3,677,900	1,299,130	570,323
Total General Revenues	\$ 22,182,202	\$ 20,287,954	\$ 22,431,812	\$ 19,977,701	\$ 19,240,968
<b>Total Revenues.....</b>	<b>\$ 25,048,707</b>	<b>\$ 23,001,601</b>	<b>\$ 24,704,770</b>	<b>\$ 22,319,718</b>	<b>\$ 21,982,033</b>
<b>Expenses</b>					
Instruction	\$ 12,320,102	\$ 10,789,975	\$ 9,617,948	\$ 9,177,276	\$ 9,478,657
Instructional Resources	223,230	227,743	159,618	214,319	216,307
Curriculum & Instr. Staff Dev.	51,975	64,477	67,317	77,278	81,422
Instructional Leadership	167,201	124,133	118,359	113,767	119,012
School Leadership	1,081,140	989,376	1,004,551	1,006,665	1,063,209
Student Support Services	1,321,525	1,237,999	1,120,529	1,257,796	1,176,319
Food Service	1,054,721	959,868	875,648	768,281	773,420
Extracurricular Activities	1,612,886	1,435,044	1,392,885	1,425,580	1,402,159
General Administration	995,631	881,732	635,402	698,674	626,201
Facilities Maintenance & Security	1,960,191	2,054,591	1,917,029	1,952,256	2,574,713
Data Processing Services	514,809	347,630	313,656	275,773	474,470
Debt Service	4,714,220	3,060,193	3,240,491	3,278,364	3,405,322
Capital Outlay	-	734,264	169,384	226,083	-
Intergovernmental	525,738	552,758	898,601	1,129,881	336,845
<b>Total Expenses.....</b>	<b>\$ 26,543,369</b>	<b>\$ 23,459,783</b>	<b>\$ 21,531,418</b>	<b>\$ 21,601,993</b>	<b>\$ 21,728,056</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ (1,494,662)</b>	<b>\$ (458,182)</b>	<b>\$ 3,173,352</b>	<b>\$ 717,725</b>	<b>\$ 253,977</b>
<b>Beginning Net Position.....</b>	<b>\$ (1,238,644)</b>	<b>\$ (780,462)</b>	<b>\$ (3,040,396)</b>	<b>\$ (3,758,121)</b>	<b>\$ (4,012,098)</b>
Prior Period Adjustment	(2,015,469)	-	(913,418)	-	-
<b>Total Expenses.....</b>	<b>\$ (4,748,775)</b>	<b>\$ (1,238,644)</b>	<b>\$ (780,462)</b>	<b>\$ (3,040,396)</b>	<b>\$ (3,758,121)</b>

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

## **APPENDIX B**

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

## GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Argyle Independent School District (the “District”) is a 48 square mile area that is primarily a suburban and agricultural area located in Denton County (the “County”). The District includes the Town of Argyle (the “Town”), a residential and retail center located six miles south of the City of Denton on US Highway 377 two miles east of Interstate 35W, as well as, parts of the Town of Flower Mound, the Town of Northlake, the Town of Bartonville, the Town of Copper Canyon and unincorporated areas within the County. The Town’s 2010 census population was 3,282, a 37.8% increase over 2000. The Town’s 2015 estimated population is 3,717. The District’s 2016 estimated population is 7,599.

The District is governed by a seven-member Board of Trustees. All of the Trustees are elected at large and serve without compensation. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board. Other District officials are employed as a result of action by the Superintendent and the Board.

## DISTRICT ENROLLMENT INFORMATION

### Scholastic Enrollment History

<u>Fiscal Year</u>	<u>Enrollment</u>	<u>Increase/(Decrease)</u>	
		<u>Number</u>	<u>Percentage</u>
2005/06	1,651	138	9.12%
2006/07	1,709	58	3.51%
2007/08	1,710	1	0.06%
2008/09	1,724	14	0.82%
2009/10	1,774	50	2.90%
2010/11	1,824	50	2.82%
2011/12	1,826	2	0.11%
2013/14	1,973	81	4.44%
2014/15	2,080	107	5.42%
2015/16*	2,243	163	7.84%

\* As of October 31, 2015.

Source: District Records.

### Projected Student Enrollment\*

<u>Fiscal Year</u>	<u>Projected Enrollment</u>	<u>Increase/(Decrease)</u>	
		<u>Number</u>	<u>Percentage</u>
2016/17	2,439	196	8.74%
2017/18	2,674	235	9.64%
2018/19	2,973	299	11.18%
2019/20	3,349	376	12.65%
2020/21	3,685	336	10.03%

\*There are two significant housing developments in the District that are expected to increase projected student enrollment growth over the coming years. Those housing developments have been included in the enrollment projections.

Source: District Records.

**Enrollment Summary by School Type<sup>(A)</sup>**

<b><u>Fiscal Year</u></b>	<b><u>Elementary (PK-5)</u></b>	<b><u>Intermediate (5-6)</u></b>	<b><u>Middle (7-8)</u></b>	<b><u>High (9-12)</u></b>	<b><u>Total Enrollment</u></b>
2005/06	707	--	420	524	1,651
2006/07	749	--	427	533	1,709
2007/08	714	--	454	542	1,710
2008/09	563	283	310	568	1,724
2009/10	560	284	329	601	1,774
2010/11	560	297	319	648	1,824
2011/12	563	275	316	672	1,826
2012/13	590	278	333	681	1,892
2013/14	666	278	338	691	1,973
2014/15	718	293	363	706	2,080
2015/16*	781	336	375	751	2,243

\* As of October 31, 2015.

<sup>(A)</sup> The District opened an intermediate school in 2008/09.

Source: District Records.

**PRESENT SCHOOL FACILITIES**

<b><u>Name of Facility</u></b>	<b><u>Grades Served</u></b>	<b><u>Present Enrollment<sup>(A)</sup></u></b>	<b><u>Functional Capacity</u></b>
Hilltop Elementary	EC-4	781	750
Argyle Intermediate School	5-6	336	450
Argyle Middle School	7-8	375	--
Argyle High School	9-12	751	1,100
<b>Total</b>		<b><u>2,243</u></b>	<b><u>2,300</u></b>

<sup>(B)</sup>

<sup>(B)</sup>

<sup>(A)</sup> As of October 31, 2015.

<sup>(B)</sup> Argyle Middle School and Argyle High School are on the same campus and thus the functional capacity of the two schools is reflected in a single number, which includes capacity of portable buildings on the campus. The new facility the District is currently constructing will serve as the middle school, when completed in summer 2016 (estimated completion).

Source: District Records.

**EMPLOYEES OF THE DISTRICT**

Teachers	149
Administrators	12
Teacher Aids, Secretaries and Staff	42
Auxiliary Employees	64
<b>Total Number of Employees</b>	<b><u>267</u></b>

The District employs a staff of approximately 267. Beginning with the 2015/16 school year, entry level teachers without advanced degrees earn \$47,830 annually. Teachers with advanced degrees and longevity can earn between \$49,330 and \$65,415 annually. All teachers receive life and health insurance benefits worth approximately \$251 monthly.

Source: District Records.

## GENERAL INFORMATION REGARDING DENTON COUNTY

Denton County (the “County”) is located in north central Texas and encompasses a land area of 911 square miles. Denton County contains 44 towns and seventeen school districts within its borders. The County is traversed by Interstate Highway 35, United States Highways 77, 377 and 380 and State Highways 114 and 121. The County is divided north and south geographically by the East Cross Timbers, which is a narrow strip of woodland that extends from the Red River to the Brazos River around Waco. The County is a center for higher education, which includes two major universities, the University of North Texas and Texas Woman’s University. Several growing urban centers are located in the County, including the cities of Denton, Lewisville, Carrollton, Flower Mound, The Colony and Roanoke. The 2000 census was 432,976, increasing 58.2% since 1990. The County’s 2010 census population was 662,604, increasing 53.0% over the 2000 census. The County’s 2015 estimated population is 789,094.

### Economy

The economy of Denton is primarily composed of educational services, health and social services, manufacturing, general retail trade and agriculture. Wholesale trade and hospitality jobs also play major roles. Denton County is one of the more diversified agricultural areas in Texas. With soil types ranging from rich black to deep sandy loam, and good, soft artesian water, it is ideal for diversified farming and livestock. Principal crops are corn, wheat, oats, hay grain sorghums and peanuts. Beef cattle, sheep, chickens and turkeys contribute a substantial and steady income every year to the farmers and ranchers of the County. A very significant concentration of valuable world champion horses and horse ranches provide a prosperous economic resource for the County. Products significant to the economy are horses, beef, eggs, wheat, grain sorghums, hay, and nursery crops.

Denton County sits atop a portion of the Barnett Shale, a geological formation believed to contain large quantities of natural gas. The County has benefited in recent years from tax revenue related to gas drilling and production.

### Largest Employers in Denton County

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
University of North Texas	Higher Education	8,738
JPMorgan Chase	Financial Services	4,350
Wal-Mart	Retail	3,900
Denton Independent School District	Public Education System	3,800
Peterbilt Motors	Truck Manufacturing	2,100
Lewisville Independent School District	Public Education System	2,061
Northwest ISD	Public Education	1,895
Denton State School	MHMR Facility	1,700
Texas Woman’s University	Higher Education	1,672
Denton County	County Government	1,581
City of Denton	Municipal Government	1,300
Texas Health Presbyterian Hospital	Health Care	1,076
Denton Regional Medical Center	Health Care	950
Sally Beauty Supply	Beauty Product Distribution	950
Labinal Power Systems	Aerospace supplies	727

Source: Denton County.

### Education

The County is served by seventeen independent school districts, all of which have been accredited by the Accreditation Division of the Texas Education Agency, and three institutions of higher learning.

The University of North Texas (“UNT”) was established in 1890 as Texas Normal College and Teacher Training Institute. Today it operates as a four-year public Doctoral/Research University. The university is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award baccalaureate, master’s, and doctoral degrees. For the fall 2015 semester, UNT had an enrollment of approximately 37,175. While the majority of UNT’s students attend classes on the 884 acre Denton campus, UNT also offers numerous courses at many off-campus sites throughout the Dallas/Fort Worth metroplex. UNT currently offers 99 bachelor’s degrees, 83 master’s degrees and 35 doctoral degree programs. The Denton campus includes Discovery Park, UNT’s nearly 285 acre research park. UNT employs approximately 4,935 faculty and staff.

Texas Woman’s University (“TWU”) is the nation’s largest university primarily for women. Established in 1901, as the Girls Industrial College, TWU has a dual mission: to provide a liberal education and to prepare young women “for the practical industries of the age” with a specialized education. TWU today offers a comprehensive catalog of academic studies, including baccalaureate,

master's and doctoral degrees. Men have been permitted at the college since 1972. With the main campus in Denton and health science centers in Dallas and Houston, TWU had enrollment of approximately 15,286 students in fall 2015 and employed approximately 450 faculty. TWU offers 38 bachelor's degrees, 37 master's degrees and 17 doctoral degrees.

The County's community college, North Central Texas College ("NCTC"), has its main campus in Gainesville, Texas which is located in Cook County. However, NCTC also serves residents in Denton and Montague Counties and Graham ISD. NCTC is accredited by the Commission on Colleges of the Southern Association of Colleges & Schools to award Associate Degrees and Certificates of Completion. NCTC offers technical, occupational and vocational classes at its Denton County campus in Corinth. NCTC was founded in 1924 and is the oldest continuously operating public two-year college in the State of Texas.

## Medical

Denton County is served by several major hospitals and surgical centers. Denton Regional Medical Center and Texas Health Presbyterian Hospital are the two largest full service hospitals. Denton Regional Medical Center offers the full-spectrum of healthcare with 208 beds and more than 850 employees and 300 physicians. Texas Health Presbyterian Hospital Denton is a 255-bed facility offering cancer care, emergency, heart and vascular care, orthopedics, pediatrics, physical therapy, women and infant care, sports medicine, among other services. Additionally, the area is served by multiple emergency and urgent care facilities and by specialized inpatient and outpatient treatment facilities.

## Transportation

The City of Denton's major highways include Interstates 35E, 35W, and U.S. highways 77, 377 and 380.

The Denton Airport ("DTO") is located within the city of Denton's city limits. The city owned airport serves a number of major companies for transportation of cargo, personnel, vendors, and prospective clients. DTO is also the base of operations for law enforcement and search and rescue operations, including CareFlite.

Dallas/Fort Worth International Airport ("DFW"), located just thirty-five minutes driving time from the city of Denton, is the third busiest airport in terms of operations. DFW has 165 gates, 7 runways and serviced over 63 million passengers in 2014. DFW has 12 domestic and 15 foreign passenger airlines offering service to 204 destinations worldwide. This major international airport is governed jointly by the cities of Dallas and Fort Worth.

Fort Worth Alliance Airport ("AFW"), the world's first purely industrial airport designed for cargo and corporate aviation, operates on a 414-acre site in northern Tarrant County. AFW features a vast array of flight services, including air cargo, corporate aviation and military aviation, and is the cornerstone for the nation's fastest-growing industrial complex, the Alliance Global Logistics Hub. Owned by the City of Fort Worth and managed by privately-held Alliance Air Services, Fort Worth Alliance Airport provides state-of-the-art infrastructure and an award-winning FAA Air Traffic Control Tower. Both international and domestic air freight companies utilize the strategic advantages of AFW, including Burlington Northern Santa Fe Railway, Federal Express and American Airlines.

Public transportation in Denton County is provided by Denton County Transportation Authority ("DCTA"). DCTA provides a full range of services in Denton and Lewisville, operating shuttles for the college campuses in town, commuter service to Downtown Dallas, transportation assistance for the disabled and elderly, and a rail system that connects to the Dallas Area Rapid Transit.

## LABOR FORCE STATISTICS

### Comparative Unemployment Rates

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u> <sup>(A)</sup>
Denton County	5.7%	5.3%	4.4%	3.6%	3.2%
State of Texas	6.7%	6.2%	5.1%	4.5%	4.3%
United States of America	8.1%	7.4%	6.2%	5.3%	5.2%

<sup>(A)</sup> As of February 2016.

Source: Labor Market Information Department, Texas Workforce Commission.

**APPENDIX C**

**FORM OF LEGAL OPINION OF  
BOND COUNSEL**



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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS,  
SERIES 2016, DATED MAY 1, 2016,  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,490,000

AS BOND COUNSEL FOR THE ISSUER (the “Issuer”) of the Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which mature and bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, with the Bonds being subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Bonds.

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

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

IN EXPRESSING SUCH OPINION, we have considered the effect of the November 22, 2005 decision by the Texas Supreme Court in *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.*, upholding, in part, a lower court judgment concluding that the local ad valorem maintenance and operation tax authorized under the school finance system then in effect had become a State property tax in violation of article VIII, section 1-e of the Texas Constitution, in that school districts did not have meaningful discretion in levying the tax. The Court’s opinion further noted that the court “. . . remain convinced . . . that defects in the structure of the public school finance system expose the system to constitutional challenge . . . [Such challenges] will repeat until the system is overhauled.” Subsequent to such decision, legislation was enacted by the Texas Legislature to address the constitutional issues raised in the court’s ruling. Reference is made to the Official Statement for the Bonds for a further description of the rulings, the legislation enacted by the Texas Legislature, and pending litigation challenging the validity of the current school finance system.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations such as the Bonds is included in a corporation’s alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by Section 55 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

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

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

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

Very truly yours,

**APPENDIX D**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015**

Independent Auditors' Report

To the Board of Trustees  
Argyle Independent School District  
Argyle, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Argyle Independent School District (the District), as of and for the year ended August 31, 2015, 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 Standard* 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 District'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 Argyle Independent School District as of August 31, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1 and Note 18 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as of August 31, 2015. Our opinion is not modified with respect to this matter.

## 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 5 through 10 and the *pension schedules* on pages 48 and 49 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 Argyle Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the required TEA schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 on our consideration of Argyle Independent School District's internal control over financial reporting and on our test 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 Argyle Independent School District's internal control over financial reporting and compliance.

*Hankins, Eastup, Deaton, Tonn & Seay*

Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

December 1, 2015

**ARGYLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2015  
(UNAUDITED)**

As management of Argyle Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2015. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 13.

**FINANCIAL HIGHLIGHTS**

- The liabilities and deferred inflows of resources of Argyle Independent School District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$4,748,775 (negative net position). Of this amount, (\$5,138,748) represents negative unrestricted net position.
- The District's total net position decreased by \$1,494,662 during the fiscal year from the result of current year operations. Total net position at the beginning of the fiscal year decreased by \$2,015,469 due to new standards that required recording of the District's proportionate share of the Teacher's Retirement System's net pension liability.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$30,946,300. Over 16% of this total amount, or \$5,173,589, is unassigned and available for use within the District's fund balance policies. The District's Capital Projects Fund has a fund balance of \$24,367,216.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,173,589 or 28.7% of the total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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 13 and 15). 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 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, 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. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 13. 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 of the District's assets and deferred outflows of resources; and liabilities and deferred inflows of resources at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (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 and deferred outflows of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources 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 deferred outflows of resources; less liabilities and deferred inflows of resources) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such 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, we divide the District into two kinds of activities:

- Governmental activities—Most 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.
- Business-type activities—The District does not have any programs in which it charges a fee to "customers" to help it cover all or most of the cost of services it provides. Thus, the District had no business-type activities during the current fiscal year.

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

### **Fund Financial Statements**

The fund financial statements begin on page 16 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes other funds to help it control and manage money for particular purposes.



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

## **The District as Trustee**

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

The District is the trustee, or fiduciary, for money raised by student activities. The District’s fiduciary activity is reported in a separate Statement of Fiduciary Assets and Liabilities 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 this fund are used for their intended purposes.

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

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

Negative net position of the District’s governmental activities increased from (\$1,238,644) to (\$4,748,775). Unrestricted negative 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 – was (\$5,138,748) at August 31, 2015. This decrease in governmental net position was primarily the result depreciation on capital assets in excess of payments of long-term debt.

**Table I**  
**NET POSITION**

	Governmental Activities 2015	Governmental Activities 2014
Current and other assets	\$37,307,949	\$12,205,088
Capital assets	68,972,386	52,479,151
Total assets	106,280,335	64,684,239
Deferred outflows of resources	1,927,891	1,521,500
Long-term liabilities	106,363,199	65,580,543
Other liabilities	6,049,640	1,863,840
Total liabilities	112,412,839	67,444,383
Deferred inflows of resources	544,162	-
Net Position:		
Net investment in capital assets	(927,049)	504,917
Restricted	1,317,022	1,299,180
Unrestricted	(5,138,748)	(3,042,741)
Total net position	(\$4,748,775)	(\$1,238,644)

**Table II**  
**CHANGES IN NET POSITION**

	Governmental Activities 2015	Governmental Activities 2014
Revenues:		
Program Revenues:		
Charges for services	\$ 1,377,337	\$ 1,366,531
Operating grants and contributions	1,489,168	1,347,116
General Revenues:		
Maintenance and operations taxes	13,308,366	12,308,924
Debt service taxes	5,680,830	4,199,409
State aid – formula	2,873,501	2,724,492
Investment earnings	195,735	93,770
Grants and contributions not restricted	69,309	3,795
Miscellaneous	54,461	34,154
Extraordinary item-insurance recovery	-	923,410
Total Revenues and Extraordinary Item	25,048,707	23,001,601
Expenses:		
Instruction, curriculum and media services	12,595,307	11,082,195
Instructional and school leadership	1,248,341	1,113,509
Student support services	1,321,525	1,237,999
Child nutrition	1,054,721	959,868
Extracurricular activities	1,612,886	1,435,044
General administration	995,631	881,732
Plant maintenance, security & data processing	2,475,000	2,402,221
Debt service	4,714,220	3,060,193
Facilities acquisition and construction	-	734,264
Contracted instructional services between schools	131,836	128,108
Payments to shared service arrangement	268,803	302,993
Other intergovernmental charges	125,099	121,657
Total Expenses	26,543,369	23,459,783
Increase (Decrease) in net position	(1,494,662)	(458,182)
Net position at beginning of year	(1,238,644)	(780,462)
Prior period adjustment	(2,015,469)	-
Net position at end of year	(\$4,748,775)	(\$1,238,644)

- Average daily attendance increased by 112 students (6.0%) from the prior year. Taxable property values increased 9.8%. Because of increases in the State of Texas funding formula and higher average daily attendance, total state revenue increased approximately \$149,000.
- The District's maintenance and operations (M&O) tax rate remained \$1.1001 per \$100 valuation. Tax collections were higher because of increased taxable property values.
- The debt service tax rate increased from \$0.375 per \$100 valuation to \$0.47 per \$100 valuation.
- The District made recapture payments to the State of Texas in the amount of \$131,836.

The cost of all governmental activities for the current fiscal year was \$26,543,369. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$18,989,196 because some of the costs were paid by those who directly benefited from the programs (\$1,377,337) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,489,168) or by State equalization funding (\$2,873,501).

## **THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$30,946,300, which is \$20,858,701 more than last year's total of \$10,087,599. Included in this year's total change in fund balance is a decrease of \$490,153 in the District's General Fund, an increase of \$83,410 in the District's Debt Service Fund, and an increase of \$21,297,200 in the District's Capital Projects Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes 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 August 2014). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$5,173,589 reported on page 16 was less than the General Fund's budgetary fund balance of \$5,254,449 reported in the budgetary comparison statement on page 24 due to actual revenues less than budgeted amounts, partially offset by cost savings achieved within certain functional categories.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At August 31, 2015, the District had \$68,972,386 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$16,493,235 or 31.4 percent, from last year.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

### **Debt Administration**

At August 31, 2015, the District had \$104,584,327 in bonds and other long-term debt outstanding (including accreted interest on capital appreciation bonds) versus \$65,580,543 last year—an increase of 59.5 percent. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund), according to national rating agencies.

The District issued \$35,110,000 (par value) of school building bonds to fund authorized construction and other projects.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

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

- The District's 2015 Maintenance and Operations tax rate remained \$1.10005 per \$100 property valuation. The Debt Service tax rate remained \$0.47 per \$100 property valuation. Taxable property values increased approximately 13%.
- The Maintenance and Operations expenditure budget has increased approximately \$1.0 million from fiscal year 2015 actual expenditures due primarily to higher personnel costs resulting from staff raises and new positions required by enrollment growth.
- The District's 2015-2016 budget for the General Fund has budgeted revenues equal to budgeted expenditures.

### **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 Argyle Independent School District, 800 Eagle Drive, Argyle, Texas 76226, (940) 464-7241.

## BASIC FINANCIAL STATEMENTS

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ARGYLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2015

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<hr/>	
ASSETS	
1110 Cash and Cash Equivalents	\$ 35,489,500
1220 Property Taxes Receivable (Delinquent)	504,420
1230 Allowance for Uncollectible Taxes	(50,442)
1240 Due from Other Governments	1,356,402
1290 Other Receivables, net	8,069
Capital Assets:	
1510 Land	9,857,089
1520 Buildings, Net	41,853,738
1530 Furniture and Equipment, Net	1,177,129
1580 Construction in Progress	16,084,430
1000 Total Assets	<hr/> 106,280,335 <hr/>
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge on Bond Refundings	1,456,038
1705 Deferred Outflows Related to TRS	471,853
1700 Total Deferred Outflows of Resources	<hr/> 1,927,891 <hr/>
LIABILITIES	
2110 Accounts Payable	4,938,719
2140 Accrued Interest Payable	141,969
2160 Accrued Wages Payable	761,627
2180 Due to Other Governments	106,410
2200 Accrued Expenses	98,052
2300 Unearned Revenue	2,863
Noncurrent Liabilities	
2501 Due Within One Year	2,440,512
2502 Due in More Than One Year	102,143,815
2540 Net Pension Liability (District's Share)	1,778,872
2000 Total Liabilities	<hr/> 112,412,839 <hr/>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows Related to TRS	544,162
2600 Total Deferred Inflows of Resources	<hr/> 544,162 <hr/>
NET POSITION	
3200 Net Investment in Capital Assets	(927,049)
3820 Restricted for Federal and State Programs	52,708
3850 Restricted for Debt Service	1,264,314
3900 Unrestricted	(5,138,748)
3000 Total Net Position	<hr/> \$ (4,748,775) <hr/>

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

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ARGYLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT B-1

Data Control Codes	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	1	3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
<b>Primary Government:</b>					
GOVERNMENTAL ACTIVITIES:					
11 Instruction	\$ 12,320,102	\$ 61,100	\$ 956,502	\$ (11,302,500)	
12 Instructional Resources and Media Services	223,230	-	10,460	(212,770)	
13 Curriculum and Staff Development	51,975	-	10,811	(41,164)	
21 Instructional Leadership	167,201	-	7,748	(159,453)	
23 School Leadership	1,081,140	-	57,666	(1,023,474)	
31 Guidance, Counseling and Evaluation Services	397,242	-	19,486	(377,756)	
33 Health Services	202,781	-	10,544	(192,237)	
34 Student (Pupil) Transportation	721,502	-	163,553	(557,949)	
35 Food Services	1,054,721	822,188	152,800	(79,733)	
36 Extracurricular Activities	1,612,886	410,259	35,661	(1,166,966)	
41 General Administration	995,631	-	23,915	(971,716)	
51 Facilities Maintenance and Operations	1,817,070	83,790	22,651	(1,710,629)	
52 Security and Monitoring Services	143,121	-	4,440	(138,681)	
53 Data Processing Services	514,809	-	12,931	(501,878)	
72 Debt Service - Interest on Long Term Debt	4,305,368	-	-	(4,305,368)	
73 Debt Service - Bond Issuance Cost and Fees	408,852	-	-	(408,852)	
91 Contracted Instructional Services Between Schools	131,836	-	-	(131,836)	
93 Payments related to Shared Services Arrangements	268,803	-	-	(268,803)	
99 Other Intergovernmental Charges	125,099	-	-	(125,099)	
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 26,543,369	\$ 1,377,337	\$ 1,489,168	(23,676,864)	
General Revenues:					
Taxes:					
MT	Property Taxes, Levied for General Purposes			13,308,366	
DT	Property Taxes, Levied for Debt Service			5,680,830	
SF	State Aid - Formula Grants			2,873,501	
GC	Grants and Contributions not Restricted			69,309	
IE	Investment Earnings			195,735	
MI	Miscellaneous Local and Intermediate Revenue			54,461	
TR	Total General Revenues			22,182,202	
CN	Change in Net Position			(1,494,662)	
NB	Net Position - Beginning			(1,238,644)	
PA	Prior Period Adjustment			(2,015,469)	
NE	Net Position--Ending			\$ (4,748,775)	

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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 5,284,144	\$ 1,278,819	\$ 28,803,287
1220 Property Taxes - Delinquent	364,257	140,163	-
1230 Allowance for Uncollectible Taxes (Credit)	(36,426)	(14,016)	-
1240 Receivables from Other Governments	1,155,275	1,317	-
1260 Due from Other Funds	1,700	-	-
1290 Other Receivables	8,019	-	-
1000 Total Assets	<u>\$ 6,776,969</u>	<u>\$ 1,406,283</u>	<u>\$ 28,803,287</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 342,300	\$ -	\$ 4,436,071
2160 Accrued Wages Payable	735,426	-	-
2170 Due to Other Funds	88	-	-
2180 Due to Other Governments	106,410	-	-
2200 Accrued Expenditures	91,325	-	-
2300 Unearned Revenues	-	-	-
2000 Total Liabilities	<u>1,275,549</u>	<u>-</u>	<u>4,436,071</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	327,831	126,147	-
2600 Total Deferred Inflows of Resources	<u>327,831</u>	<u>126,147</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	24,367,216
3480 Retirement of Long-Term Debt	-	1,280,136	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	5,173,589	-	-
3000 Total Fund Balances	<u>5,173,589</u>	<u>1,280,136</u>	<u>24,367,216</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,776,969</u>	<u>\$ 1,406,283</u>	<u>\$ 28,803,287</u>

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

		Total Governmental Funds	
Other Funds			
\$	123,250	\$	35,489,500
	-		504,420
	-		(50,442)
	199,810		1,356,402
	1,095		2,795
	50		8,069
<u>\$</u>	<u>324,205</u>	<u>\$</u>	<u>37,310,744</u>
\$	160,348	\$	4,938,719
	26,201		761,627
	2,707		2,795
	-		106,410
	6,727		98,052
	2,863		2,863
	<u>198,846</u>		<u>5,910,466</u>
	-		453,978
	<u>-</u>		<u>453,978</u>
	52,708		52,708
	-		24,367,216
	-		1,280,136
	72,651		72,651
	-		5,173,589
	<u>125,359</u>		<u>30,946,300</u>
<u>\$</u>	<u>324,205</u>	<u>\$</u>	<u>37,310,744</u>

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ARGYLE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2015

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 30,946,300</b>
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	86,960,775
2 Accumulated depreciation is not reported in the fund financial statements.	(17,988,389)
3 Bonds payable are not reported in the fund financial statements.	(85,709,948)
4 Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.	(10,068,159)
5 Bond premiums on outstanding bonds payable are not recognized in the fund financial statements.	(8,806,220)
6 The deferred charge on bond refundings is not recognized in the fund financial statements.	1,456,038
7 Property tax revenue reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	453,978
8 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(141,969)
9 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability required by GASB #68 and #71 in the amount of \$1,778,872, Deferred Resource Inflows related to TRS in the amount of \$471,853, and Deferred Resource Outflows related to TRS in the amount of \$544,162. This results in a decrease in Net Position in the amount of \$1,851,181.	(1,851,181)
<b>19 Net Assets of Governmental Activities</b>	<b>\$ (4,748,775)</b>

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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 13,732,472	\$ 5,660,523	\$ 124,579
5800	State Program Revenues	3,761,584	-	-
5900	Federal Program Revenues	73,336	-	-
5020	Total Revenues	17,567,392	5,660,523	124,579
EXPENDITURES:				
Current:				
0011	Instruction	10,097,331	-	757,806
0012	Instructional Resources and Media Services	225,351	-	-
0013	Curriculum and Instructional Staff Development	41,831	-	-
0021	Instructional Leadership	169,468	-	-
0023	School Leadership	1,067,922	-	-
0031	Guidance, Counseling and Evaluation Services	396,057	-	-
0033	Health Services	203,306	-	-
0034	Student (Pupil) Transportation	571,030	-	188,886
0035	Food Services	-	-	-
0036	Extracurricular Activities	1,115,662	-	800
0041	General Administration	1,002,280	-	-
0051	Facilities Maintenance and Operations	1,982,109	-	-
0052	Security and Monitoring Services	142,508	-	-
0053	Data Processing Services	516,952	-	-
Debt Service:				
0071	Principal on Long Term Debt	-	798,425	-
0072	Interest on Long Term Debt	-	4,775,228	-
0073	Bond Issuance Cost and Fees	-	4,350	404,502
Capital Outlay:				
0081	Facilities Acquisition and Construction	-	-	17,879,887
Intergovernmental:				
0091	Contracted Instructional Services Between Schools	131,836	-	-
0093	Payments to Fiscal Agent/Member Districts of SSA	268,803	-	-
0099	Other Intergovernmental Charges	125,099	-	-
6030	Total Expenditures	18,057,545	5,578,003	19,231,881
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(490,153)	82,520	(19,107,302)
OTHER FINANCING SOURCES (USES):				
7911	Capital Related Debt Issued (Regular Bonds)	-	-	35,110,000
7916	Premium or Discount on Issuance of Bonds	-	890	5,294,502
7080	Total Other Financing Sources (Uses)	-	890	40,404,502
1200	Net Change in Fund Balances	(490,153)	83,410	21,297,200
0100	Fund Balance - September 1 (Beginning)	5,663,742	1,196,726	3,070,016
3000	Fund Balance - August 31 (Ending)	\$ 5,173,589	\$ 1,280,136	\$ 24,367,216

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

Other Funds		Total Governmental Funds	
\$	1,090,076	\$	20,607,650
	273,655		4,035,239
	206,261		279,597
	<u>1,569,992</u>		<u>24,922,486</u>
	370,398		11,225,535
	-		225,351
	10,263		52,094
	-		169,468
	-		1,067,922
	-		396,057
	-		203,306
	-		759,916
	1,013,137		1,013,137
	207,950		1,324,412
	-		1,002,280
	-		1,982,109
	-		142,508
	-		516,952
	-		798,425
	-		4,775,228
	-		408,852
	-		17,879,887
	-		131,836
	-		268,803
	-		125,099
	<u>1,601,748</u>		<u>44,469,177</u>
	<u>(31,756)</u>		<u>(19,546,691)</u>
	-		35,110,000
	-		5,295,392
	-		40,405,392
	<u>(31,756)</u>		<u>20,858,701</u>
	<u>157,115</u>		<u>10,087,599</u>
\$	<u>125,359</u>	\$	<u>30,946,300</u>

ARGYLE INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 20,858,701</b>
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions is to increase net position.	18,369,786
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of the current year's depreciation is to decrease net position in the government-wide financial statements.	(1,876,551)
Current year long-term debt principal payments on bonds payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	1,950,388
Current year interest accretion on capital appreciation bonds payable is not recognized in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(1,075,876)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	(67,861)
Revenues from property taxes are reported as unavailable revenue in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	126,221
Current year amortization of the premium on bonds payable is not recognized in the fund financial statements, but is shown as a reduction in long-term debt in the government-wide financial statements.	527,096
Current year amortization of the deferred charge on bond refundings is not recognized in the fund financial statements, but is shown as a reduction of the deferred charge in the government-wide financial statements.	(65,462)
Current year issuances of bonds are shown as an other financing source in the fund financial statements, but are shown as increases in long-term debt in the government-wide financial statements.	(35,110,000)
The premium on the current year issuances of bonds is recorded as an other financing source in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(5,295,392)

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



ARGYLE INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2015

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<p>The implementation of GASB #68 and #71 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2014 caused the change in the ending net position to increase \$328,713. These contributions were replaced with the District's pension expense for the measurement year of \$164,425, which results in a decrease in the change in net position. The net effect of all of these is to increase the change in net position by \$164,288.</p>	<p>164,288</p>
<p><b>Change in Net Assets of Governmental Activities</b></p>	<hr/> <p>\$ (1,494,662)</p> <hr/>

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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 13,378,000	\$ 13,869,110	\$ 13,732,472	\$ (136,638)
5800	State Program Revenues	3,475,163	3,829,643	3,761,584	(68,059)
5900	Federal Program Revenues	54,500	73,800	73,336	(464)
5020	Total Revenues	16,907,663	17,772,553	17,567,392	(205,161)
EXPENDITURES:					
Current:					
0011	Instruction	9,650,134	10,124,554	10,097,331	27,223
0012	Instructional Resources and Media Services	222,605	225,605	225,351	254
0013	Curriculum and Instructional Staff Development	42,724	43,724	41,831	1,893
0021	Instructional Leadership	170,019	170,019	169,468	551
0023	School Leadership	1,075,161	1,075,161	1,067,922	7,239
0031	Guidance, Counseling and Evaluation Services	397,854	397,854	396,057	1,797
0033	Health Services	203,266	204,266	203,306	960
0034	Student (Pupil) Transportation	525,977	575,477	571,030	4,447
0036	Extracurricular Activities	1,022,158	1,136,558	1,115,662	20,896
0041	General Administration	703,109	1,004,709	1,002,280	2,429
0051	Facilities Maintenance and Operations	1,909,425	2,000,325	1,982,109	18,216
0052	Security and Monitoring Services	140,663	146,663	142,508	4,155
0053	Data Processing Services	456,096	517,681	516,952	729
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	145,000	145,000	131,836	13,164
0093	Payments to Fiscal Agent/Member Districts of SSA	350,000	284,250	268,803	15,447
0099	Other Intergovernmental Charges	130,000	130,000	125,099	4,901
6030	Total Expenditures	17,144,191	18,181,846	18,057,545	124,301
1200	Net Change in Fund Balances	(236,528)	(409,293)	(490,153)	(80,860)
0100	Fund Balance - September 1 (Beginning)	5,663,742	5,663,742	5,663,742	-
3000	Fund Balance - August 31 (Ending)	\$ 5,427,214	\$ 5,254,449	\$ 5,173,589	\$ (80,860)

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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
AUGUST 31, 2015

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 193,843
Total Assets	<u>\$ 193,843</u>
LIABILITIES	
Accounts Payable	\$ 15,230
Due to Student Groups	178,613
Total Liabilities	<u>\$ 193,843</u>

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

ARGYLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Argyle Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees is elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Argyle Independent School District has no component units.

**B. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. The District had no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

ARGYLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

ARGYLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and deferred outflows of resources; and liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pools, is based upon 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. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

ARGYLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

**D. BUDGETARY CONTROL**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Food Service Fund, and the Debt Service Fund. The special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2015	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 51,027
Nonappropriated Budget Funds	<u>74,332</u>
All Special Revenue Funds	<u>\$125,359</u>

**E. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at August 31, 2015.

**F. IMPLEMENTATION OF NEW STANDARDS**

In the current fiscal year, the District implemented the following new standards:

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GASB Statement 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71") amends the transition provisions of GASB 68. GASB 71 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

**G. INVENTORIES**

The District records purchases of supplies as expenditures.

**H. INTERFUND RECEIVABLES AND PAYABLES**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account.

**I. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings & Improvements	15-50 Years
Furniture and Equipment	3-15 Years

**J. COMPENSATED ABSENCES**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.



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**K. NET POSITION**

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

When both restricted and unrestricted net position is available, restricted net position is expended before unrestricted net position if such use is consistent with the restricted purpose.

**L. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses as incurred.

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

**M. 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 fiscal 2015, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**N. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2. FUND BALANCES**

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

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- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has no nonspendable fund balance.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or 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 resources are restricted for future capital outlay. Federal and State grant resources are restricted because their use is restricted pursuant to the grant requirements.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees has committed resources as of August 31, 2015 for campus activities and local grants.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District does not have any assigned fund balance as of August 31, 2015.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance of the General Fund.

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

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 16) and are described below:

### **General Fund**

The General Fund has unassigned fund balance of \$5,173,589 at August 31, 2015.

### **Debt Service Fund**

The Debt Service Fund has restricted funds of \$1,280,136 at August 31, 2015 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

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**Capital Projects Fund**

The Capital Projects Fund has restricted funds of \$24,367,216 at August 31, 2015 consisting primarily of remaining bond issuance proceeds that are restricted for construction and other capital outlay expenditures.

**Other Funds**

The fund balances of \$52,821 and \$19,830 of the Campus Activity and other Local Grants Funds (special revenue funds) are shown as committed due to Board policy committing those funds to campus activities and local projects. The following special revenue funds fund balances are restricted by Federal or State grant restrictions:

National Breakfast & Lunch Program	\$51,027
Advanced Placement Incentives	1,300
AP/IB Campus Awards	<u>381</u>
Total	<u>\$52,708</u>

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

1. Cash Deposits:

At August 31, 2015, the carrying amount of the District's deposits (checking accounts and interest-bearing demand accounts) was \$15,669,481 and the bank balance was \$16,265,736. The District's cash deposits at August 31, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2015, the District's cash deposits totaled \$16,265,736. This entire amount was either collateralized with securities held by the District's agent or covered by FDIC insurance. Thus, the District's deposits were not exposed to custodial credit risk as of August 31, 2015. The District's deposits were full collateralized with securities held by the District's agent or covered by FDIC Insurance for the entire year.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2015, the District held investments in a public funds investment pool. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexSTAR Investment Pool at year-end was AAAm (Standard & Poor's).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District's investment in the external investment pool is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2015, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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The District's investments at August 31, 2015, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexSTAR Investment Pool	<u>\$20,010,964</u>	<u>\$20,010,964</u>
	<u>\$20,010,964</u>	<u>\$20,010,964</u>

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2015, was as follows:

	<u>Balance September 1</u>	<u>Additions/ Completions</u>	<u>Retirement/ Adjustments</u>	<u>Balance August 31</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 9,857,089	\$ -	\$ -	\$ 9,857,089
Construction in Progress	-	16,084,430	-	16,084,430
Total Capital assets not being depreciated	<u>9,857,089</u>	<u>16,084,430</u>	<u>-</u>	<u>25,941,519</u>
Capital assets, being depreciated				
Buildings & Improvements	55,378,616	2,008,237	-	57,386,853
Furniture and Equipment	1,233,746	88,233	-	1,321,979
Vehicles	2,121,538	188,886	-	2,310,424
Total capital assets being depreciated	<u>58,733,900</u>	<u>2,285,356</u>	<u>-</u>	<u>61,019,256</u>
Less accumulated depreciation for:				
Buildings & Improvements	(13,959,773)	(1,573,342)	-	(15,533,115)
Furniture and Equipment	(669,963)	(135,038)	-	(805,001)
Vehicles	(1,482,102)	(168,171)	-	(1,650,273)
Total accumulated depreciation	<u>(16,111,838)</u>	<u>(1,876,551)</u>	<u>-</u>	<u>(17,988,389)</u>
Total capital assets, being depreciated, net	<u>42,622,062</u>	<u>408,805</u>	<u>-</u>	<u>43,030,867</u>
Governmental activities capital assets, net	<u>\$52,479,151</u>	<u>\$16,493,235</u>	<u>\$ -</u>	<u>\$68,972,386</u>

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$1,289,871
School Leadership	24,119
Guidance, Counseling & Evaluation Services	5,980
Health Services	1,951
Student Transportation	153,935
Food Services	45,760
Cocurricular/Extracurricular Activities	295,232
Plant Maintenance and Operations	57,953
Security and Monitoring Services	1,750
Total depreciation expense-Governmental activities	<u>\$1,876,551</u>

**NOTE 5. LONG-TERM DEBT**

Long-term debt includes par bonds and capital appreciation (deep discount) serial bonds. All long-term debt represents transactions in the District's governmental activities.

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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.

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2015:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/14	Issued Current Year	Interest Accretion	Retired/ Refunded	Amounts Outstanding 8/31/15	Due Within One Year
Unlimited tax school bldg. & refunding bonds-Series 1997	4.60-5.50%	7,836,771	\$1,042,866	\$ -	\$ -	\$ 200,000	\$ 842,866	\$ 125,000
Unlimited tax school bldg. & bonds-Series 1998	4.60%	5,315,861	1,960,862	-	-	-	1,960,862	-
Unlimited tax school bldg. & refunding bonds-Series 2003	5.21%	14,477,722	148,939	-	-	9,808	139,131	64,133
Unlimited tax school bldg. & refunding bonds-Series 2005	4.79%	4,962,500	370,000	-	-	5,000	365,000	5,000
Unlimited tax refunding bonds-Series 2006	4.00-4.72%	9,460,000	8,800,000	-	-	85,000	8,715,000	85,000
Unlimited tax refunding bonds-Series 2007	3.84-4.35%	8,855,000	8,220,000	-	-	80,000	8,140,000	380,000
Unlimited tax refunding bonds-Series 2008	2.85-5.09%	20,750,000	19,165,706	-	-	363,617	18,802,089	351,331
Unlimited tax refunding bonds-Series 2011	2.15-4.25%	2,355,000	2,355,000	-	-	-	2,355,000	-
Unlimited tax refunding bonds-Series 2013A	3.65-4.00%	895,000	895,000	-	-	-	895,000	-
Unlimited tax refunding bonds-Series 2013B	2.00-4.00%	4,515,000	4,515,000	-	-	-	4,515,000	-
Unlimited tax refunding bonds-Series 2014	2.00-4.00%	3,925,000	3,925,000	-	-	55,000	3,870,000	45,000
Unlimited tax school building bonds-Series 2014	3.00-4.00%	35,110,000	-	35,110,000	-	-	35,110,000	235,000
Total Bonded Indebtedness:			51,398,373	35,110,000	-	798,425	85,709,948	1,290,464
Other Direct Obligations:								
Accreted Interest - Capital Appreciation Bonds			10,144,246	1,075,876	-	1,151,963	10,068,159	1,150,048
Bond Premiums			4,037,924	5,295,392	-	527,096	8,806,220	-
Total Other Obligations:			14,182,170	6,371,268	-	1,679,059	18,874,379	1,150,048
Total Obligations of District			\$65,580,543	\$41,481,268	\$ -	\$2,477,484	\$104,584,327	\$2,440,512

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

Year Ended August 31,	Principal	Interest	Total Requirements
2016	\$ 1,290,464	\$ 4,651,800	\$ 5,942,264
2017	1,559,497	4,818,567	6,378,064
2018	2,107,143	4,737,720	6,844,863
2019	2,605,655	4,748,209	7,353,864
2020	2,184,263	4,709,901	6,894,164
2021-2025	13,595,337	19,640,907	33,236,244
2026-2030	12,102,892	19,377,226	31,480,118
2031-2035	13,834,697	16,377,822	30,212,519
2036-2040	22,365,000	6,182,754	28,547,754
2041-2045	14,065,000	1,309,450	15,374,450
2046-2047	-	-	-
	<u>\$85,709,948</u>	<u>\$86,554,356</u>	<u>\$172,264,304</u>

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The 1997, 1998, 2003, 2005, 2006, 2008, 2011, 2013A, 2013B and 2014 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature variously in 2016 through 2034. Interest accrues on these bonds each February 15 and August 15 even though the interest is not paid until maturity.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2015.

**NOTE 6. DEBT ISSUANCE AND DEFEASED DEBT**

In September 2014, the District issued \$35,110,000 (par value) in Unlimited Tax School Building Bonds Series 2014 to fund approved projects. The net proceeds were \$40,000,000 (\$35,110,000 par amount of the bonds plus \$5,295,392 of premium paid on the bonds less \$405,392 of underwriting fees and other issuance costs).

The District's deferred charge on bond refundings are as follows:

Balance – August 31, 2014	\$1,521,500
Current year deferred charge on bond refundings	-
Current year amortization	<u>(65,462)</u>
Balance – August 31, 2015	<u>\$1,456,038</u>

**NOTE 7. PROPERTY TAXES**

Property taxes are considered available when collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2013-14 fiscal year was based was \$1,205,027,439. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2015, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.10005 and \$0.47 per \$100 valuation, respectively, for a total of \$1.57005 per \$100 valuation.

Current tax collections for the year ended August 31, 2015 were 98.6% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2015, property taxes receivable, net of estimated uncollectible taxes, totaled \$327,831 and \$126,147 for the General and Debt Service Funds, respectively.

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Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

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

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

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$159,496,075,886
Less: Plan Fiduciary Net Position	<u>(132,779,243,085)</u>
Net Pension Liability	<u>\$ 26,716,832,801</u>
Net Position as percentage of Total Pension Liability	83.25%

**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.



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Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	<u>Contribution Rates</u>	
	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Argyle ISD 2014 Employer Contributions	\$	168,836
Argyle ISD 2014 Member Contributions	\$	692,841
Argyle ISD 2014 NECE On-Behalf Contributions	\$	575,750

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, 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 the 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 source or a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, 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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method Normal	Individual Entry Age
Amortization Method of Payroll, Open	Level Percentage of
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%
*Includes Inflation of 3%	

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The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

**Discount Rate.** The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha	0%		1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* The Expected Contribution to 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 (8%) in measuring the 2014 Net Pension Liability.

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	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Argyle ISD's proportionate share of the net pension liability:	\$3,178,736	\$1,778,872	\$732,035

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2015, Argyle Independent School District reported a liability of \$1,778,872 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Argyle Independent School District. The amount recognized by Argyle 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 Argyle Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$1,778,872
State's proportionate share that is associated with the District	<u>6,078,977</u>
Total	<u>\$7,857,849</u>

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's 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, 2013 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was .000066596%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, Argyle Independent School District recognized pension expense of \$561,990 and revenue of \$575,750 for support provided by the State.

At August 31, 2015, Argyle 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:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,511	\$ -
Changes in actuarial assumptions	115,629	-
Difference between projected and actual investment earnings	-	543,696
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	466
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	328,713	-
Total	\$ 471,853	\$ 544,162

\$328,713 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2016	\$ (111,855)
2017	(111,855)
2018	(111,855)
2019	(111,855)
2020	24,069
2021	22,329

**NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN**

*Plan Description.* Argyle Independent School 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. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees authority to establish and amend the basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2014. The State of Texas contribution rate was 0.5% in fiscal year 2013. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2015, 2014, and 2013, the State's contributions to TRS-Care were \$110,935, \$107,093, and \$48,948, respectively, the active member contributions were \$76,663, \$70,365, and \$64,309, respectively, and the school district's contribution were \$71,874, \$59,539, and \$54,937, respectively, which equaled the required contributions each year.

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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 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. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended August 31, 2015, the contribution made on behalf of the District was \$34,562.

**NOTE 10. RISK MANAGEMENT**

**Health Care:**

During the year ended August 31, 2015, employees of Argyle Independent School District were covered by a health insurance plan (the Plan). The District contributed \$250 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contributions. All contributions were paid to a fully insured plan (TRS ActiveCare).

**Workers Compensation:**

The District participates in the SchoolComp Workers Compensation Self-Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$35,050 for the 14-15 fiscal year. Additionally, the District incurred fixed costs of \$37,240 for their share of claims administration, loss control, record keeping, and cost of excess insurance.

Creative Risk Funding provides claims administration. Reinsurance is provided for aggregate claim losses exceeding \$250,000. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

The accrued liability for workers compensation self-insurance of \$83,197 includes incurred but not reported claims. The liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in workers compensation claims liability amounts in fiscal years 2015 and 2014 are shown below:

Fiscal Year	September 1 Claims Liability	Claims and Changes in Estimates	Claims Payments	August 31 Claims Liability
2015	\$ 60,393	\$ 64,897	\$ 42,093	\$ 83,197
2014	53,325	43,493	36,425	60,393

The District was fully insured for workers compensation risks prior to September 1, 2006.

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Property and Casualty Insurance:

During the year ended August 31, 2015, Argyle ISD participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage in:

Auto Liability  
Auto Physical Damage  
Crime  
General Liability  
Property  
Sexual Misconduct Endorsement  
SP Legal Liability

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves.

Based on information we have available as of today, for the year ended August 31, 2015, Argyle ISD will have no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool:

During the year ended August 31, 2015, Argyle ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

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**NOTE 11. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2015, are summarized below. All federal grants shown below are passed through the TEA and are reported on the financial statements as Due from Other Governments.

Fund	State Grants	Federal Grants	Local Governments	Total
General Fund	\$1,146,132	\$ -	\$ 9,143	\$1,155,275
Debt Service Fund	-	-	1,317	1,317
Special Revenue Funds	<u>173,156</u>	<u>26,654</u>	<u>-</u>	<u>199,810</u>
Total	<u>\$1,319,288</u>	<u>\$ 26,654</u>	<u>\$ 10,460</u>	<u>\$1,356,402</u>

**NOTE 12. LITIGATION AND CONTINGENCIES**

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2015 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 13. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$13,144,138	\$ -	\$5,608,175	\$ -	\$18,752,313
Food sales	-	822,188	-	-	822,188
Investment Income	49,213	-	21,943	124,579	195,735
Penalties, interest and other tax related income	80,256	-	30,405	-	110,661
Co-curricular student activities	202,309	186,252	-	-	388,561
Other	<u>256,556</u>	<u>81,636</u>	<u>-</u>	<u>-</u>	<u>338,192</u>
Total	<u>\$13,732,472</u>	<u>\$1,090,076</u>	<u>\$5,660,523</u>	<u>\$124,579</u>	<u>\$20,607,650</u>

**NOTE 14. UNEARNED REVENUE**

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Grant Funds	\$ -	\$ 2,863	\$ -	\$ 2,863
	<u>\$ -</u>	<u>\$ 2,863</u>	<u>\$ -</u>	<u>\$ 2,863</u>

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**NOTE 15. JOINT VENTURES**

The District participates in a cooperative program with other local districts for special education services. The District does not account for revenue or expenditures of these programs and does not disclose them in these financial statements.

<u>Shared Service Agreement</u>	<u>Fiscal Agent</u>	<u>Service</u>
Denton County Special Education SSA	Sanger Independent School District	Special Education

**NOTE 16. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for certain Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in one functional category in the Child Nutrition Fund for the year ended August 31, 2015.

**NOTE 17. CONSTRUCTION COMMITMENTS**

As of August 31, 2015, the District had entered into construction contracts for construction of a new middle school and other construction projects totaling \$37,145,461. At August 31, 2015, there was \$23,637,791 of remaining costs under these contracts.

**NOTE 18. PRIOR PERIOD ADJUSTMENT**

In fiscal year 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As such, the prior period adjustment was necessary to record the beginning pension liability of the District. The following illustrates the effect of the prior period adjustment:

<b>Beginning Net Position – As Originally Presented</b>	\$(1,238,644)
Restatement due to:	
Net pension liability (measurement date as of August 31, 2013)	(2,184,305)
Deferred Outflows:	
District contributions made to TRS during the fiscal year	<u>168,836</u>
<b>Beginning Net Position – As Restated</b>	<u><u>\$(3,254,113)</u></u>