

OFFICIAL STATEMENT DATED APRIL 27, 2020

NEW ISSUE - Book-Entry-Only

**RATING:**  
**S&P: "AAA"**  
**PSF: GUARANTEED**  
(See "OTHER INFORMATION – Rating"  
and "THE PERMANENT SCHOOL FUND  
GUARANTEE PROGRAM" herein.)

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

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS".

**\$6,785,000**  
**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
(A political subdivision of the State of Texas located in Nueces County)  
**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2020**

**Dated: March 1, 2020**

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

**Interest accrues from the Delivery Date (defined below)**

**THE BONDS...**The West Oso Independent School District (the "District") is issuing its \$6,785,000 Unlimited Tax School Building and Refunding Bonds, Series 2020 (the "Bonds") pursuant to the authority and for the purposes hereinafter specified.

**PAYMENT TERMS . . .** Interest on the Bonds will accrue from the Delivery Date and will be payable on August 15, 2020 and each February 15 and August 15 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. The definitive Bonds will be issued as fully registered obligations in the principal denomination of \$5,000 or integral multiples thereof for any one stated maturity. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners (the "Beneficial Owners") thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The initial Paying Agent/Registrar is UMB Bank, N.A., Houston, Texas. See "THE BONDS - Paying Agent/Registrar".

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and Sections 45.001 and 45.003, Texas Education Code, as amended ("Chapter 45"), an election held in the District on November 6, 2018 (the "Election"), and an order (the "Order") adopted by the Board of Trustees (the "Board") of the District on April 27, 2020 authorizing the issuance of the Bonds. The Bonds are direct obligations of the District payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District as provided in the Order. See "THE BONDS – Security and Source of Payment". **The District has applied and received approval from the Texas Education Agency for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund Guarantee which will automatically become effective when the Texas Attorney General approves the issuance of the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) for the construction, renovation, acquisition, and equipment of school buildings in the District, and the purchase of the necessary sites; and (ii) refunding certain of the District's currently outstanding bonds of the respective series, in the maturities, and in the amounts identified in Schedule I hereto (the "Refunded Bonds") for debt service savings, and (iii) paying the costs associated with the issuance of the Bonds. See "PLAN OF FINANCE – Purpose".

**See Maturity Schedule, Interest Rates, Yields, Redemption Provisions and CUSIP Numbers on Page ii**

**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the initial purchaser named below (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX C - Form of Bond Counsel's Opinion". Certain legal matters will be passed for the Underwriter by Winstead, PC, San Antonio, Texas.

**DELIVERY . . .** It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about May 21, 2020 (the "Delivery Date").

**SAMCO CAPITAL MARKETS**

**\$6,785,000**  
**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2020**

**MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP NUMBERS**

**CUSIP<sup>(1)</sup>Prefix:955006**

**\$1,265,000 Serial Bonds**

Maturity 8/15	Principal Amount	Interest Rate	Yield <sup>(2)</sup>	CUSIP <sup>(1)</sup> Suffix
2020	\$ 315,000	4.000%	1.010%	QX2
2021	360,000	4.000%	1.050%	QY0
2022	65,000	4.000%	1.230%	QZ7
2023	65,000	4.000%	1.400%	RA1
2024	70,000	4.000%	1.510%	RB9
2025	70,000	4.000%	1.620%	RC7
2026	75,000	4.000%	1.710%	RD5
2027	80,000	4.000%	1.760%	RE3
2028	80,000	4.000%	1.820%	RF0
2029	85,000	4.000%	1.870%	RG8

**\$5,520,000 Term Bonds**

\$1,395,000 4.000% Term Bond due August 15, 2032 Price to Yield 1.900%<sup>(3)</sup> CUSIP Suffix No. RK9<sup>(1)</sup>

\$2,615,000 4.000% Term Bond due August 15, 2034 Price to Yield 2.000%<sup>(3)</sup> CUSIP Suffix No. RM5<sup>(1)</sup>

\$410,000 4.000% Term Bond due August 15, 2039 Price to Yield 2.280%<sup>(3)</sup> CUSIP Suffix No. RS2<sup>(1)</sup>

\$500,000 4.000% Term Bond due August 15, 2044 Price to Yield 2.480%<sup>(3)</sup> CUSIP Suffix No. RX1<sup>(1)</sup>

\$600,000 4.000% Term Bond due August 15, 2049 Price to Yield 2.620%<sup>(3)</sup> CUSIP Suffix No. SC6<sup>(1)</sup>

(Interest accrues from the Delivery Date.)

**REDEMPTION** . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2032, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS- Optional Redemption"). The Bonds maturing on August 15, in the years 2032, 2034, 2039, 2044, and 2049 (the "Term Bonds"), are also subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Mandatory Sinking Fund Redemption").

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. CUSIP numbers have been assigned to this issue by CUSIP Service Bureau and included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter, the District nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Initial yield represents the initial offering yield to the public which has been established by the Underwriter for the offers to the public by the Underwriter as its sole responsibility which may be subsequently changed.

<sup>(3)</sup> Yield calculated based upon the assumption that the Bonds designated and sold at a premium will be redeemed on August 15, 2030, the first optional redemption date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

## USE OF INFORMATION

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. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances create any implication that there has been no change in the affairs of the District or other matter described herein since the date hereof. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

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

Certain information set forth herein has been obtained from or provided by sources other than the District that the District believes are reliable, but the District makes no guarantee as to accuracy or completeness of such information, and such information is not to be construed as a representation by the District or the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create and 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 TEA and the District, respectively, to provide certain information on a continuing basis.

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

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 THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

NONE OF THE DISTRICT, THE UNDERWRITER, OR THE FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE TEA OR THE PERMANENT SCHOOL FUND, AS SUCH INFORMATION HAS BEEN PROVIDED BY SUCH ENTITIES.

The agreements of the District and others related to the Bonds are contained solely in the documents described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 31-Aug	Estimated District Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax Debt	Per Capita Tax Debt	Ratio Debt to Taxable Assessed Debt	% of Total Tax Collections
2016	9,418	\$ 759,688,259	\$ 80,663	\$ 25,436,885	\$ 2,701	3.35%	98.02%
2017	9,584	766,963,661	80,025	23,640,540	2,467	3.08%	98.16%
2018	9,608	761,244,254	79,230	22,434,994	2,335	2.95%	98.55%
2019	9,468	818,159,658	86,413	30,339,682	3,204	3.71%	95.64%
2020	9,687	817,834,438	84,426	33,126,682 <sup>(1)</sup>	3,420	4.05%	<sup>(2)</sup>

<sup>(1)</sup> Includes the Bonds and the District's Limited Maintenance Tax Notes, Series 2012 ("the 2012 Maintenance Tax Notes"), excludes the Refunded Bonds.

<sup>(2)</sup> In the process of collections.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	For Fiscal Year Ended August 31				
	2019	2018	2017	2016	2015
Total Revenues	\$ 22,289,725	\$ 21,227,294	\$ 20,401,863	\$ 20,931,301	\$ 20,036,936
Total Expenditures	20,938,457	(21,263,856)	(20,608,664)	(21,030,795)	(19,398,196)
Net Transfers/Other Resources	-	-	-	(177,441)	(359,533)
Net Change in Fund Balance	1,351,268	(36,562)	(206,801)	(276,935)	279,207 <sup>(1)</sup>
Beginning Balance	1,632,549	1,766,690	1,973,491	2,250,426	1,971,219
Ending Balance	<u>\$ 2,983,817</u>	<u>\$ 1,730,128</u>	<u>\$ 1,766,690</u>	<u>\$ 1,973,491</u>	<u>\$ 2,250,426</u>

Source: The District's audited annual financial statements.

<sup>(1)</sup> Beginning net position as of September 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Also, management determined that Federal Program receivables had been overstated by \$207,018.

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**DISTRICT ADMINISTRATION**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Term Expires</u> <u>November</u>	<u>Length of</u> <u>Service</u>	<u>Occupation</u>
Cella Boyd President	2022	2 Years	Retired
Rose Soto Vice President	2022	1 Year	Procurement/Specialist
Velma Rodriguez Secretary	2020	16 Years	Retired Teacher
Lonie Alexander Trustee	2020	Newly Elected	Office Manager
Liz Gutierrez Trustee	2020	7 Years	Court Clerk
Shirley Jordan Trustee	2020	28 Years	CPS Monitor
Oscar Arredondo Trustee	2020	Newly Elected	Financial Management Technician

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of</u> <u>Service in</u> <u>Current Position</u>	<u>Length of</u> <u>Service with</u> <u>the District</u>
Conrado Garcia	Superintendent	4 Years	4 Years
David Palacios	Asst. Superintendent of Business, Finance, & School Operations	1 Year	30 Years

**CONSULTANTS AND ADVISORS**

Auditors ..... Lovvorn & Kieschnick, L.L.P.  
Certified Public Accountants  
Corpus Christi, Texas

Financial Advisor ..... Estrada Hinojosa & Company, Inc.  
San Antonio, Texas

Bond Counsel ..... Escamilla & Poneck, LLP  
San Antonio, Texas

For additional information regarding the District, please contact:

Conrado Garcia  
Superintendent  
David Palacios  
Asst. Superintendent of Business, Finance, &  
School Operations  
5050 Rockford Dr.  
Corpus Christi, Texas 78416  
(361) 806-5900 -Telephone  
(361) 225-8306 - Fax

or

Tony Jaso  
Executive Vice President  
Estrada Hinojosa & Company, Inc.  
100 W. Houston Street  
Suite 1400  
San Antonio, Texas 78205  
(210) 223-4888 - Telephone  
(210) 941-0501 - Fax

**OFFICIAL STATEMENT**

**RELATING TO**

**\$6,785,000**

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Nueces County)  
Unlimited Tax School Building and Refunding Bonds, Series 2020**

**INTRODUCTION**

This Official Statement, which includes Schedule I, and the Appendices hereto, provides certain information regarding the issuance of the \$6,785,000 West Oso Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2020 (the "Bonds"). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order adopted by the Board of Trustees (the "Board") of the West Oso Independent School District (the "District") on April 27, 2020 which authorized the issuance of the Bonds (the "Order").

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 financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future. See "OTHER INFORMATION – Forward Looking Statements" herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Estrada Hinojosa & Company, Inc., San Antonio and Dallas, Texas, upon payment of reasonable copying, handling and delivery charges.

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

**DESCRIPTION OF THE DISTRICT . . .** The District is a political subdivision located in Nueces County, Texas. The District is governed by a seven-member Board who serve staggered four-year terms with elections being held in November of each even numbered year. 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.

The District is approximately 84 square miles in area in Nueces County, Texas and encompasses the City of Corpus Christi. See Appendix A – "General Information Regarding the District".

**PLAN OF FINANCE**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) for the construction, renovation, acquisition, and equipment of school buildings in the District, and the purchase of the necessary sites; and (ii) refunding certain of the District's currently outstanding bonds of the respective series, in the maturities, and in the amounts identified in Schedule I hereto (the "Refunded Bonds") for debt service savings, and (iii) paying the costs associated with the issuance of the Bonds.

**REFUNDED BONDS . . .** The Bonds are each being issued to refund certain outstanding indebtedness of the District as described in Schedule I hereto. The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds from funds to be deposited pursuant to an escrow agreement (the "Escrow Agreement") between the District and UMB Bank, NA, Houston, Texas (the "Escrow Agent"). The Order provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriter and other available District funds, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special account pursuant to the Escrow Agreement (the "Escrow Fund") and held in cash or used to purchase direct obligations of the United States of America or other permitted defeasance securities (the "Escrow Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Ritz & Associates, PA (the "Verification Agent") will verify 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, principal and accrued interest on the Refunded Bonds on their scheduled interest payment dates and on their respective redemption dates. Such maturing principal of and interest on the Escrow Securities will not be available to pay the Bonds. See "OTHER INFORMATION – Verification of Arithmetical and Mathematical 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 the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of the Verification Agent, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Securities and any cash held for the payment of the Refunded Bonds by the Escrow Agent and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. Upon the defeasance of the Refunded Bonds the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program.

## **THE BONDS**

**DESCRIPTION OF THE BONDS.** . . The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date (as defined on the cover page) and will be payable on August 15 and February 15 of each year commencing August 15, 2020 and will be calculated on the basis of a 360-day year of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York, ("DTC"), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a day. The payment on such date has the same force and effect as if made on the original date payment was due.

**AUTHORITY FOR ISSUANCE** . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and Sections 45.001 and 45.003, Texas Education Code, as amended ("Chapter 45" and, collectively with Chapter 1207, the "Act"), an election held in the District on November 6, 2018 (the "Election"), and an order (the "Order") adopted by the Board of Trustees (the "Board") of the District on April 27, 2020 authorizing the issuance of the Bonds.

**SECURITY AND SOURCE OF PAYMENT** . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. **Additionally, the District made an application and received approval from the Texas Education Agency for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of Texas which guarantee will automatically become effective when the Attorney General of the State of Texas approves the issuance of the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", herein.**

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

**OPTIONAL REDEMPTION OF THE BONDS** . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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**MANDATORY REDEMPTION OF THE TERM BONDS . . .** The Bonds maturing on August 15, in the years 2032, 2034, 2039, 2044, and 2049 will be issued as term bonds (the “Term Bonds”) and shall be subject to the following mandatory redemption requirements:

<b>\$1,395,000 Term Bonds</b>		<b>\$2,615,000 Term Bonds</b>	
Stated to Mature on August 15, 2032		Stated to Mature on August 15, 2034	
Year	Principal Amount	Year	Principal Amount
2030	\$ 90,000	2033	\$ 1,280,000
2031	65,000	2034 (maturity)	1,335,000
2032 (maturity)	1,240,000		

<b>\$410,000 Term Bonds</b>		<b>\$500,000 Term Bonds</b>	
Stated to Mature on August 15, 2039		Stated to Mature on August 15, 2044	
Year	Principal Amount	Year	Principal Amount
2035	\$ 75,000	2040	\$ 90,000
2036	80,000	4041	95,000
2037	80,000	4042	100,000
2038	85,000	4043	105,000
2039 (maturity)	90,000	2044 (maturity)	110,000

<b>\$600,000 Term Bonds</b>	
Stated to Mature on August 15, 2049	
Year	Principal Amount
2045	\$ 110,000
2046	115,000
2047	120,000
2048	125,000
2049 (maturity)	130,000

The particular Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before July 1 of each year in which Term Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been optionally redeemed on or before July 1 of such year and which have not been made the basis for a previous reduction.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to an optional redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice. The notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners of Bonds. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

**REDEMPTION THROUGH THE DEPOSITORY TRUST COMPANY AND OTHER NOTICES . . .** 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 with regard to the Bonds, notice of proposed amendment to the Order, or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "THE BONDS – Book-Entry-Only System" herein.

**BOOK-ENTRY-ONLY SYSTEM . . .** This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. DTC, the world's largest 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 regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates for each maturity of the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates for each maturity of the Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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

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

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and Maturity Amount of the Bonds will be paid to the registered owner at the stated maturity or, with respect to the Bonds, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal and Maturity Amount of the Bonds and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System," above.

**SUCCESSOR PAYING AGENT/REGISTRAR . . .** The District reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying Agent/Registrar selected by the District shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and

delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month (the "Record Date").

**SPECIAL RECORD DATE . . .** In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which must be 15 days after the Special Record Date) will 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 holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**MUTILATED, DESTROYED, LOST, OR STOLEN BONDS. . .** The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

**DEFEASANCE OF THE BONDS . . .** The Bond Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Governmental Obligations (defined below), that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment; provided, however, that the sufficiency of deposits shall be certified by an independent public accounting firm, the District's Financial Advisor, or another qualified third party in connection with a defeasance of the Bonds. The District has additionally reserved the right in the Bond Order, subject to satisfying the requirements of (1), (2) and (3) above, as applicable, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The Bond Order provides that "Governmental Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Governmental Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Bond Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if 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 stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

**AMENDMENTS . . .** The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

**BONDHOLDERS' REMEDIES . . .** The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. 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, Bond holders may not be able to bring such a suit against the District for breach of the Bonds or covenants of the orders. 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 Bond holders 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.

**USE OF PROCEEDS . . .** Proceeds from the sale of the Bonds and the District's contribution are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	\$ 6,785,000.00
Premium	1,049,845.65
I&S Contribution	<u>51,861.37</u>
Total Sources of Funds	<u><u>\$ 7,886,707.02</u></u>
Uses:	
Deposit to Project Fund	\$ 2,500,000.00
Deposit to Escrow Fund	5,167,250.70
Costs of Issuance	169,653.31
Underwriters' Discount	<u>49,803.01</u>
Total Uses of Funds	<u><u>\$ 7,886,707.02</u></u>

**THE PERMANENT SCHOOL FUND GUARATEE PROGRAM**

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

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

## **HISTORY AND PURPOSE**

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

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated \$306 per student and the total amount distributed to the ASF was \$1,535.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2019, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent

year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

## **2019 TEXAS LEGISLATIVE SESSION**

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from \$300 million to \$600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

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

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

## **THE TOTAL RETURN CONSTITUTIONAL AMENDMENT**

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

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

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

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

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund’s investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency), and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation but was held and invested by the State Comptroller.

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

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

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



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

#### **MANAGEMENT AND ADMINISTRATION OF THE FUND**

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

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

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

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

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

#### **CAPACITY LIMITS FOR GUARANTEE PROGRAM**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating,

as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

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

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

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

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

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

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

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

## **THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM**

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

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

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

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

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

## **THE CHARTER DISTRICT BOND GUARANTEE PROGRAM**

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

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At March 24, 2020, there were 183 active open-enrollment charter schools in the State and there were 790 charter school campuses operating under such charters (though as of such date, four of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

## 2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State’s fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see “Ratings of Bonds Guaranteed Under the Guarantee Program”) or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of February 29, 2020, the Charter District Reserve Fund contained \$35,183,564, which represented approximately 1.49% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

## CHARTER DISTRICT RISK FACTORS

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

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

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

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

## INFECTIOUS DISEASE OUTBREAK

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

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

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

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

### *TEA Continuity of Operations*

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and

conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under “The School District Bond Guarantee Program,” the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

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

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

**RATINGS OF BONDS GUARANTEE UNDER THE GUARANTEE PROGRAM**

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

**VALUATION OF THE PSF AND GUARANTEED BONDS**

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

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

<sup>(2)</sup> At August 31, 2019, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$216.7 million, \$3,640.2 million, \$7.5 million, and \$4,457.3 million, respectively, and market values of approximately \$3,198.2 million, \$619.7 million, \$3,927.6 million, \$1.3 million, and \$4,457.3 million, respectively. At December 31, 2019, the PSF had a book value of \$35,402,400,338 and a market value of \$48,020,026,798. December 31, 2019 values are based on unaudited data, which is subject to adjustment.

**PERMANENT SCHOOL FUND GUARANTEED BONDS**

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

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

<sup>(2)</sup> As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$133,188,149,265, of which \$48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were \$84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

**PERMANENT SCHOOL FUND GUARANTEED BY CATEGORY <sup>(1)</sup>**

Fiscal Year Ended	School District Bonds		Charter District Bonds		Totals	
	No. of <u>8/31</u> <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>
2015	3,089	\$63,197,514,047	28	\$ 757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 <sup>(2)</sup>	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

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

<sup>(2)</sup> At December 31, 2019 (based on unaudited data, which is subject to adjustment), there were \$88,291,231,320 of bonds guaranteed under the Guarantee Program, representing 3,401 school district issues, aggregating \$85,920,336,320 in principal amount and 54 charter district issues, aggregating \$2,370,895,000 in principal amount. At December 31, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$4,350,476,526 (based on unaudited data, which is subject to adjustment).

**DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2019**

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

At the end of fiscal 2019, the Fund balance was \$46.5 billion, an increase of \$2.4 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2019, net of fees, were 4.17%, 5.25% and 8.18%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 5.84%, 6.13%, and 6.41%, respectively.

The market value of the Fund’s assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation Protected Securities, real return commodities, and emerging market debt.



As of August 31, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.1 billion and capital commitments to private equity limited partnerships for a total of \$6.3 billion. Unfunded commitments at August 31, 2019, totaled \$1.9 billion in real estate investments and \$2.3 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2019, the remaining commitments totaled approximately \$2.5 billion.

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

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.7 billion, a decrease of \$0.3 billion from fiscal year 2018 earnings of \$4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 10.0% for the fiscal year ending August 31, 2019. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2018 and 2019, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled \$0 and \$300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed \$84.4 billion in bonds issued by 863 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,443 school district and charter district bond issues totaling \$186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.3 billion or 6.7%. The State Capacity Limit increased by \$5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

## **2011 AND 2019 CONSTITUTIONAL AMENDMENTS**

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

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

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

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

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

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

#### **OTHER EVENTS AND DISCLOSURES**

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

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

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

As of August 31, 2019, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

#### **PSF CONTINUING DISCLOSURE UNDERTAKING**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019 and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed

bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

#### **ANNUAL REPORTS**

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

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

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

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

#### **EVENT NOTICES**

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

## **AVAILABILITY OF INFORMATION**

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

## **LIMITATIONS AND AMENDMENTS**

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

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

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

## **COMPLIANCE WITH PRIOR UNDERTAKINGS**

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

## **SEC EXEMPTIVE RELIEF**

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

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

**LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM** . . . On seven occasions in the last thirty years, the Texas Supreme Court has issued decisions assessing the constitutionality of the Texas public school finance system (the “Finance System”). The litigation has primarily focused on whether the Finance System, as amended by the Texas legislature from time to time in response to the litigation, (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the legislature to “establish and make suitable provision for the support and maintenance of an efficient system of public free schools,” or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution. In response to the Texas Supreme Court decisions, the Texas Legislature (the “Legislature”) enacted multiple laws which made substantive changes in the way the Finance System is funded, in efforts to address decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Texas Supreme Court issued its opinion in the most recent litigation, which was styled *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, 490 S.W. 340263 (Tex. 2016). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by legislature in response to prior decisions of the Texas Supreme Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Texas Supreme Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

**POSSIBLE EFFECTS OF LITIGATION AND CHANGES IN LAW ON DISTRICT BONDS . . .** The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was “undeniably imperfect.” While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the 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”) which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or 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 PUBLIC SCHOOL FINANCE SYSTEM**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

### **THE SCHOOL FINANCE SYSTEM AS APPLIED TO WEST OSO INDEPENDENT SCHOOL DISTRICT**

The District's wealth per student for the 2019-20 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

### **TAX INFORMATION**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

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

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

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

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

**STATE MANDATED HOMESTEAD EXEMPTIONS . . .** State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

**STATE MANDATED FREEZE ON SCHOOL DISTRICT TAXES . . .** Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled.

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the District, *see* “TAX RATE LIMITATIONS – THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein.

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

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review

board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

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

**TAX RATE LIMITATIONS**

**M&O TAX RATE LIMITATIONS . . .** The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on July 10, 2004 in accordance with the provisions of Chapter 45, as amended, Texas Education Code.

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

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

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district’s MCR. A school district’s MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93. See “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts” herein.

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

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

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

The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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

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

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

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

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

“CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

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

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

**THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT . . .** The District does levy a tax against the value of residence homesteads exempted from ad valorem taxes as permitted on a local option basis.

The Board has elected to grant an additional exemption of residence homestead of a person 65 years of age or older and certain disabled persons of \$10,000.

The District has taken official action to tax "freeport property" located within the District.

The Nueces County Tax Office collects taxes for the District.

The District does not allow split payments of tax bills on a quarterly basis for owners over the age of 65

The District does not allow discounts for early payment of taxes.

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**THE DISTRICT'S TAX BASE**

The following table provides information pertaining to the tax base of the District -- valuation base on which the District's local enrichment tax for debt service and operations may be levied. The table also contains certain information relating to the District's outstanding debt. The District's tax base is the primary source of revenue for the payment of the District's long term debt.

**TABLE 1 - VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT**

2019 Market Valuation Established by Nueces County Appraisal District		\$ 1,014,461,937
Less: Exemptions/Reductions at 100% Market Value:		
\$25,000 Residential Homestead Exemptions (State Mandated)	36,002,537	
Homestead Cap	4,049,416	
Disability	2,055,318	
Over 65	5,503,986	
Disabled Veterans	412,000	
Disabled Veterans Homestead	826,335	
Freeport Exemptions	26,885,754	
Pollution control exemption loss	9,983	
Productivity Loss	<u>100,882,170</u>	<u>176,627,499</u>
2019 Taxable Assessed Valuation		837,834,438
Deduct: Loss of Value for Over 65 Frozen Accounts		<u>20,650,167</u>
2019 Net Taxable Assessed Valuation		<u><u>\$ 817,184,271</u></u>
Debt Payable from Ad Valorem Taxes (as of April 27, 2020)		
U/L Tax Refunding Bonds, Series 2007	\$ 44,682	
U/L Tax Refunding Bonds, Series 2011	110,000	
U/L Tax Refunding Bonds, Series 2011A	75,000 <sup>(1)</sup>	
U/L Tax Refunding Bonds, Series 2016	8,315,000	
U/L Tax Refunding Bonds, Series 2017	7,575,000	
U/L Tax Sch Bldg Bds Ser 2019	9,250,000	
The Bonds	<u>6,785,000</u>	<u>\$ 32,154,682 <sup>(2)</sup></u>
Limited Maintenance Tax Notes, Series 2012		\$ 642,000
<b>Total Outstanding Principal Debt as of August 31, 2020</b>		<b>\$ 32,796,682 <sup>(2)</sup></b>
Interest and Sinking Fund (as of 8-31-19)		\$ 125,190
Ratio Funded Tax Supported Net Debt to Taxable Assessed Valuation		4.01%
	2020 Estimated Population	9,687
	Per Capita Taxable Assessed Valuation \$	86,491
	Per Capita Net Funded Debt \$	3,386

<sup>(1)</sup> Excludes the Refunded Bonds.

<sup>(2)</sup> Includes the Bonds and excludes the Refunded Bonds.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY<sup>(1)</sup>**

Category	Taxable Appraised Value For Fiscal Year Ended August 31,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 176,236,528	17.37%	\$ 176,184,540	17.80%	\$ 177,072,103	18.22%
Real, Residential, Multi-Family	9,415,142	0.93%	9,209,905	0.93%	8,537,044	0.88%
Real, Vacant Lots/Tracts	17,796,265	1.75%	16,174,177	1.63%	16,363,756	1.68%
Real, Qualified Open-Space Land/Improvements	108,801,670	10.73%	120,239,055	12.15%	120,371,352	12.39%
Improvements on Qualified Open Space	616,833	0.06%	600,864	0.06%	557,150	0.06%
Rural Land, Non-Qualified Open Space	13,119,224	1.29%	12,434,811	1.26%	11,023,240	1.13%
Real, Commercial	265,492,249	26.17%	258,508,039	26.12%	253,307,817	26.07%
Real, Industrial	5,426,949	0.53%	5,117,370	0.52%	4,899,848	0.50%
Real, Minerals Oil and Gas	4,256,503	0.42%	3,811,053	0.39%	4,219,713	0.43%
Real and Tangible Personal, Utilities	25,908,371	2.55%	20,244,301	2.05%	18,343,822	1.89%
Tangible Personal, Commercial	296,780,674	29.25%	277,583,168	28.05%	244,293,048	25.14%
Tangible Personal, Industrial	71,546,496	7.05%	73,003,295	7.38%	98,611,053	10.15%
Tangible Personal, Mobile Homes	10,286,974	1.01%	8,779,917	0.89%	6,077,854	0.63%
Special Inventory	8,778,059	0.87%	7,802,279	0.79%	8,042,014	0.83%
Total Appraised Value Before Exemptions	\$ 1,014,461,937	100.00%	\$ 989,692,774	100.00%	\$ 971,719,814	100.00%
Less: Total Exemptions/Reductions	197,277,666		171,533,116		210,475,560	
Taxable Assessed Valuation	\$ 817,184,271		\$ 818,159,658		\$ 761,244,254	

Category	Taxable Appraised Value For Fiscal Year Ended August 31,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 177,445,424	18.82%	\$ 154,727,441	16.84%
Real, Residential, Multi-Family	8,262,660	0.88%	7,888,838	0.86%
Real, Vacant Lots/Tracts	13,508,015	1.43%	12,486,286	1.36%
Real, Qualified Open-Space Land/Improvements	73,846,402	7.83%	74,248,691	8.08%
Improvements on Qualified Open Space	595,862	0.06%	590,738	0.06%
Rural Land, Non-Qualified Open Space	9,577,505	1.02%	9,402,760	1.02%
Real, Commercial	235,760,366	25.01%	223,911,609	24.37%
Real, Industrial	4,376,270	0.46%	4,169,183	0.45%
Real, Minerals Oil and Gas	4,748,073	0.50%	6,035,223	0.66%
Real and Tangible Personal, Utilities	17,018,500	1.81%	17,741,046	1.93%
Tangible Personal, Commercial	278,523,569	29.55%	290,796,835	31.66%
Tangible Personal, Industrial	103,099,979	10.94%	102,549,790	11.16%
Tangible Personal, Mobile Homes	5,990,729	0.64%	4,046,334	0.44%
Special Inventory	9,877,646	1.05%	10,030,800	1.09%
Total Appraised Value Before Exemptions	\$ 942,631,000	100.00%	\$ 918,625,574	100.00%
Less: Total Exemptions/Reductions	175,667,339		158,937,315	
Taxable Assessed Valuation	\$ 766,963,661		\$ 759,688,259	

<sup>(1)</sup>Source: The Comptroller’s Office. The above figures reflect the taxable appraised values as stated at the beginning of each tax year to the State Property Tax Board. Any difference between these figures and taxable assessed valuations are due to adjustments and corrections to respective tax rolls.

**TAX VALUE CONCENTRATION**

As shown in "Table 2 – Taxable Assessed Valuations by Category" and reflected on "Table 5 – Ten Largest Taxpayers", the appraised value in the District has been historically substantially affected by the changing value of mineral property and related business activities within the District. Fluctuations in the price of oil and gas affect the market value of such properties and thus result in changes in the taxable value of such properties. Adverse developments in economic conditions, especially in the oil and gas industries could adversely impact the businesses that own such properties and the tax values in the District. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to fund debt service payments from other resources, if available. See “THE BONDS – Bondholders’ Remedies” and “AD VALOREM TAXATION” in the Official Statement.

**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population	Taxable Assessed Valuation <sup>(1)</sup>	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio Funded	
					Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2016	9,179	\$ 759,688,259	\$ 82,764	\$ 25,436,885	3.35%	\$ 2,771
2017	9,418	766,963,661	81,436	23,640,540	3.08%	2,510
2018	9,584	761,244,254	79,429	22,434,994	2.95%	2,341
2019	9,608	818,159,658	85,154	30,444,682	3.72%	3,169
2020	9,687	817,184,271	84,359	32,796,682 <sup>(2)</sup>	4.01%	3,386

<sup>(1)</sup> Source: The valuations are shown are the certified Taxable Assessed Valuations reported annually in September to the Property Tax Board. The valuations are subject to change during the ensuing year due to settlement of contested valuations or other similar matters.

<sup>(2)</sup> Includes the Bonds and the District’s Limited Maintenance Tax Notes, Series 2012 (“the 2012 Maintenance Tax Notes”) and excludes the Refunded Bonds.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ending 8/31	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2016	\$ 1.4500	\$ 1.1700	\$ 0.2800	\$ 10,992,080	95.72%	98.02%
2017	1.4500	1.1700	0.2800	10,564,924	95.50%	98.16%
2018	1.4500	1.1700	0.2800	11,076,448	96.46%	98.55%
2019	1.4500	1.1700	0.2800	11,604,850	93.64%	95.64%
2020	1.4080	1.0680 <sup>(1)</sup>	0.3400	11,796,709	In Process of Collection	

Source: The District’s Audited Financial Statements.

<sup>(1)</sup> See “TAX RATE LIMITATION – M&O Tax Rate Limitations” herein regarding maximum M&O tax rates established by the 2019 Legislation.

**TABLE 5 - TEN LARGEST TAXPAYERS<sup>(1)</sup>**

Name of Taxpayer	Nature of Property	2019 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Orion Drilling LP	Oil & Gas	\$ 33,620,100	4.11%
AEP Texas Inc.	Electrical Utility	17,856,330	2.19%
EAN Holdings LLC	Equipment	17,225,802	2.11%
Gulf Coast Crane Services	Oil Tools	15,341,833	1.88%
Grouper CC VA Ltd.	Medical Clinic	11,822,925	1.45%
Magnum Oil Tools	Real Estate	8,353,560	1.02%
Agnes Properties Ltd.	Distribution Center	8,169,796	1.00%
Strike LLC	Oil & Gas	7,796,596	0.95%
Republic Beverage Company	Beverage	7,432,473	0.91%
Transcanada Keystone Pipeline	Pipeline	7,303,940	0.89%
		<u>\$ 134,923,355</u>	<u>16.51%</u> <sup>(1)</sup>

<sup>(1)</sup> See "TAX INFORMATION - Tax Value Concentration", herein.



**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2020 Taxable Assessed Valuation	2020 Tax Rate	Total Tax Debt (as of 4/27/20)	Estimated % Applicable	District's Overlapping Funded Debt	Authorized But Unissued Tax Debt as of 4/27/20
West Oso ISD	\$ 817,184,271	\$ 1.4500	\$ 32,796,682 <sup>(1)</sup>	100.00%	\$ 32,796,682 <sup>(1)</sup>	\$ - <sup>(2)</sup>
Corpus Christi, City of	21,860,495,097	0.6460	445,670,000	3.77%	16,801,759	96,000,000
Del Mar College District	29,498,038,445	0.2810	219,355,000	3.28%	7,194,844	92,952,981
Nueces County	32,062,332,840	0.3120	150,675,418	2.80%	4,218,912	-
Total Direct and Overlapping Tax Debt					\$ 61,012,197	
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation						7.47%
Per Capita Overlapping Debt					\$ 6,298	

<sup>(1)</sup> Includes the Bonds and the 2012 Maintenance Tax Notes and excludes the Refunded Bonds.

<sup>(2)</sup> Accounts for \$2,500,000 in "New Money" from a portion of the proceeds of the Bonds.

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**DEBT INFORMATION**

**TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

FYE 8/31	Outstanding Debt Service <sup>(1)</sup>	The Bonds			Total Debt Service			% Principal Paydown
		Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 2,250,903	\$ 315,000	\$ 63,327	\$ 378,327	\$ 908,168	\$ 1,721,061	\$ 2,629,229	
2021	2,115,163	360,000	258,800	618,800	806,514	1,927,449	2,733,963	
2022	2,445,663	65,000	244,400	309,400	1,605,000	1,150,063	2,755,063	
2023	2,441,513	65,000	241,800	306,800	1,655,000	1,093,313	2,748,313	
2024	2,440,513	70,000	239,200	309,200	1,715,000	1,034,713	2,749,713	21%
2025	2,442,613	70,000	236,400	306,400	1,775,000	974,013	2,749,013	
2026	2,357,513	75,000	233,600	308,600	1,755,000	911,113	2,666,113	
2027	2,358,663	80,000	230,600	310,600	1,820,000	849,263	2,669,263	
2028	2,362,663	80,000	227,400	307,400	1,885,000	785,063	2,670,063	
2029	2,355,463	85,000	224,200	309,200	1,955,000	709,663	2,664,663	49%
2030	2,355,663	90,000	220,800	310,800	2,035,000	631,463	2,666,463	
2031	2,317,863	65,000	217,200	282,200	860,000	1,740,063	2,600,063	
2032	1,097,063	1,240,000	214,600	1,454,600	2,035,000	516,663	2,551,663	
2033	1,105,263	1,280,000	165,000	1,445,000	2,115,000	435,263	2,550,263	
2034	706,863	1,335,000	113,800	1,448,800	1,805,000	350,663	2,155,663	77%
2035	518,063	75,000	60,400	135,400	375,000	278,463	653,463	
2036	516,063	80,000	57,400	137,400	390,000	263,463	653,463	
2037	518,663	80,000	54,200	134,200	405,000	247,863	652,863	
2038	520,663	85,000	51,000	136,000	425,000	231,663	656,663	
2039	517,063	90,000	47,600	137,600	440,000	214,663	654,663	83%
2040	518,063	90,000	44,000	134,000	455,000	197,063	652,063	
2041	520,288	95,000	40,400	135,400	475,000	180,688	655,688	
2042	516,988	100,000	36,600	136,600	490,000	163,588	653,588	
2043	518,338	105,000	32,600	137,600	510,000	145,938	655,938	
2044	519,163	110,000	28,400	138,400	530,000	127,563	657,563	91%
2045	519,463	110,000	24,000	134,000	545,000	108,463	653,463	
2046	518,694	115,000	19,600	134,600	565,000	88,294	653,294	
2047	517,381	120,000	15,000	135,000	585,000	67,381	652,381	
2048	515,525	125,000	10,200	135,200	605,000	45,725	650,725	
2049	518,125	130,000	5,200	135,200	630,000	23,325	653,325	100%
<b>Total</b>	<b>\$ 38,925,915</b>	<b>\$ 6,785,000</b>	<b>\$ 3,657,727</b>	<b>\$ 10,442,727</b>	<b>\$ 32,154,682</b>	<b>\$ 17,213,960</b>	<b>\$ 49,368,642</b>	

**Notes**

<sup>(1)</sup> Excludes the Refunded Bonds. Excludes the 2012 Maintenance Tax Notes.

**TABLE 8 - ESTIMATED INTEREST AND SINKING FUND BUDGET PROJECTION**

Estimated Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/20		\$ 2,629,229
Interest and Sinking Fund Balance at 9/01/19	\$ 125,190	
Estimated Interest and Sinking Fund Tax Levy @ 98% Collections	2,722,858	
Facilities Allotment State Aid (EDA)	<u>893,938</u>	<u>3,741,986</u>
Estimated Balance as of 8/31/20		<u>\$ 1,112,757</u>

**TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX DEBT**

After the issuance of the Bonds, the District has no authorized but unissued unlimited tax debt.

**ANTICIPATED ISSUANCE OF TAX DEBT . . .** The District does not anticipate issuing additional ad valorem tax bonds within the remainder of calendar year 2020.

**TABLE 10 - OTHER OBLIGATIONS**

**MAINTENANCE AND OPERATIONS TAX DEBT . . .** As of August 31, 2019, the District’s outstanding debt service payments for its Limited Maintenance Tax Notes, Series 2012 were as follows:

Fiscal Year Ending August 31,	Principal	Interest	Total
2020	\$ 210,000	\$ 12,776	\$ 222,776
2021	214,000	8,597	222,597
2022	218,000	4,338	222,338
	<u>\$ 642,000</u>	<u>\$ 25,711</u>	<u>\$ 667,711</u>

**LONG-TERM OBLIGATION ACTIVITY . . .** As of August 31, 2019, the District did not have any outstanding Capital Leases.

**PENSION FUND . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 6.4% of gross earnings and .65% to the retirement health insurance plan, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan. See Appendix B, “West Oso Independent School District Annual Financial Report for Fiscal Year Ended August 31, 2019” - Note H.

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**FINANCIAL INFORMATION**

**TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURES**

	Fiscal Years Ended August 31,				
	2019	2018	2017	2016	2015
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 9,289,307	\$ 9,159,714	\$ 9,205,270	\$ 8,944,349	\$ 8,911,251
State Program Revenues	10,975,968	10,123,319	9,432,181	10,334,575	9,587,070
Federal Program Revenues	2,024,450	1,944,261	1,764,412	1,652,377	1,538,615
Total Revenues	<u>\$ 22,289,725</u>	<u>\$ 21,227,294</u>	<u>\$ 20,401,863</u>	<u>\$ 20,931,301</u>	<u>\$ 20,036,936</u>
<b>Expenditures:</b>					
Instruction	\$ 10,285,808	\$ 10,263,625	\$ 10,042,865	\$ 9,989,859	\$ 9,004,841
Instructional Resources & Media Services	410,949	406,870	398,944	429,616	387,076
Curriculum & Staff Development	182,454	170,038	225,495	280,631	334,648
Instructional Leadership	186,732	188,987	175,356	265,006	189,049
School Leadership	1,038,324	1,086,276	1,010,567	1,066,626	983,114
Guidance, Counseling & Evaluation Services	765,776	894,511	955,043	914,710	780,944
Social Work Services	1,278	1,062			
Health Services	150,601	129,224	127,260	139,627	107,613
Student (Pupil) Transportation	258,881	256,016	278,408	255,014	191,690
Food Services	1,241,506	1,231,253	1,253,120	1,300,688	1,351,140
Cocurricular/Extracurricular Activities	864,857	859,834	838,228	873,053	879,941
General Administration	1,334,553	1,291,582	1,424,748	1,203,409	1,078,664
Facilities Maintenance and Operations	3,115,535	3,526,350	3,041,462	3,048,261	3,163,414
Security and Monitoring Services	336,327	229,716	223,446	190,701	222,742
Data Processing Services	229,405	246,035	181,032	214,885	158,907
Community Services	9,573	5,856	37	5,085	1,830
Principal on Long-term Debt	266,522	262,021	260,669	194,000	190,000
Interest on Long-term Debt	18,393	23,914	25,206	28,676	32,457
Bond Issuance Costs and Fees		-	400	-	-
Capital Outlay	5,000	-	1,340	415,567	1,598
Payments to Shared Service Arrangements	69,847	19,625	10,803	-	-
Contracted Inst. Services Between Public Schools		-	-	-	-
Payments to Fiscal Agent/Member Dist. - SSA		-	-	57,280	189,080
Payments to Juvenile Justice Alternative	36,455	41,619	31,813	39,305	66,272
Other Intergovernmental Governmental Charges	129,681	129,442	102,422	118,796	83,176
Total Expenditures	<u>\$ 20,938,457</u>	<u>\$ 21,263,856</u>	<u>\$ 20,608,664</u>	<u>\$ 21,030,795</u>	<u>\$ 19,398,196</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 1,351,268</u>	<u>\$ (36,562)</u>	<u>\$ (206,801)</u>	<u>\$ (99,494)</u>	<u>\$ 638,740</u>
<b>Other Financing Sources (Uses)</b>					
Other Resources	-	-	-	-	-
Transfers In	-	-	108,937	58,590	-
Transfers Out (Use)	-	-	(108,937)	(236,031)	(359,533)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (177,441)</u>	<u>\$ (359,533)</u>
Net Change in Fund Balance	\$ 1,351,268	\$ (36,562)	\$ (206,801)	\$ (276,935)	\$ 279,207
Fund Balance - September 1 (Beginning)	1,632,549	1,766,690	1,973,491	2,250,426	1,971,219 <sup>(1)</sup>
Fund Balance - August 31 (Ending)	<u>\$ 2,983,817</u>	<u>\$ 1,730,128</u>	<u>\$ 1,766,690</u>	<u>\$ 1,973,491</u>	<u>\$ 2,250,426</u>

Source: District's audited financial statements.

<sup>(1)</sup> Beginning net position as of September 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Also, management determined that Federal Program receivables had been overstated by \$207,018.

## FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Financial Accountability Systems Resource Guide, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments. See Appendix B - "West Oso Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2019".

General Fund Balance . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 60 days of expenditures in the General Fund.

Budgetary Procedures . . . The District policy is to begin budget preparations on the individual school level in March of each year. The principals work with the teachers to formulate a working budget, which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late August. Priorities are based on long-term and annual goals.

## INVESTMENTS

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

**LEGAL INVESTMENTS.** . . Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board. 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; (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 that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (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 365 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 \$1.00 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 the 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 continuously rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than ninety (90) days. The District may also contract with an investment management firm registered under the Investment Advisors 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.

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

**ADDITIONAL PROVISIONS. . .** Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

**TABLE 12 – CURRENT INVESTMENTS**

On August 31, 2019, the District's estimated balance of investable funds was as follows:

Type of Investment	Amount
Investment in Tex Pool	\$ 8,495,187

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

**TAX MATTERS**

**OPINION**

On the date of initial delivery of the Bonds, Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C - Form of Bond Counsel's Opinion.

In rendering the foregoing opinion, Bond Counsel will rely upon (i) the District's federal tax certificate and the report of the Verification Agent concerning the sufficiency of the deposit to the Escrow fund, and (ii) the representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds. Further, Bond Counsel has not been retained by the District to monitor such post-issuance compliance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. 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.

#### **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.

#### **FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT**

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each accrual 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.

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

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

#### **STATE, LOCAL AND FOREIGN TAXES**

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

#### **QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

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

#### **OTHER INFORMATION**

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

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on April 27, 2020 of Executive Order GA-18 which, among other things, maintained the previously ordered closure of in-person classroom attendance at school districts through the remainder of the 2019-2020 school year, maintained certain mandates regarding the minimization of in-person contact with people who are not in the same household except to provide or obtain essential services (as defined therein), and reopened certain non-essential services under certain conditions and limitations (as provided therein). Executive Order GA-18 remains in place until 11:59 p.m. on May 15, 2020 unless otherwise modified, amended, rescinded or superseded by the Governor. Furthermore,



the Governor has temporarily suspended various statutory provisions of the Texas Open Meetings Act in order to allow telephonic or videoconference meetings of governmental entities and to avoid congregate settings in physical locations. In public statements, the Commissioner of the TEA has indicated that the state will continue to evaluate the need for further extensions of school closures. In addition to the actions by the state and federal officials, local officials of Nueces County and the City of Corpus Christi have declared a local state of disaster. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of schools and the economic activity of Texas.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District has developed and begun delivering remote instructional resources for its students. Therefore, the District does not anticipate a reduction in state funding as a result of its school closures at this time. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”.

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

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

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

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

#### **RATING**

An application for a contract rating on the Bonds has been made to S&P Global Ratings, Inc., a division of Standard and Poor’s Financial Securities (“S&P”). S&P generally rates all bonds guaranteed by the Permanent School Fund of Texas “AAA”. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein. The currently outstanding unenhanced, tax supported debt of the District has an underlying rating of “A” by S&P. An explanation of the significance of such ratings may be obtained from S&P. The ratings reflect only the views of such organization and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

#### **LITIGATION**

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for payment or security or in any manner question the validity of the Bonds.

The District is not a party to any litigation or other 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 statements of the District.

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

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

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies 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 (Chapter 2256, Texas Government Code), 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 "OTHER INFORMATION - Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to sure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bond 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.

#### **LEGAL MATTERS**

The District will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS" the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel has been retained by and only represents the District. A form of Bond Counsel's opinion appears in Appendix C attached hereto.

Bond Counsel was engaged by, and only represents, the District. 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 in this Official Statement appearing under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Redemption through the Depository Trust Company and Other Notices", "Book-Entry-Only-System", "Bondholders' Remedies", and "Use of Bond Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS", the subcaptions under the heading OTHER INFORMATION – "Continuing Disclosure of Information" (except the subsection entitled "Compliance with Prior Undertakings"), "Legal Investments and Eligibility to Secure Public Fund in Texas", and "Legal Matters" (excluding the last sentence of the second paragraph thereof), and such firm is of the opinion that the information 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 on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Winstead, PC, San Antonio, Texas, Counsel to the Underwriter.

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.

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

#### **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 United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

**ANNUAL REPORTS.** . . . The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB through the "EMMA" information system in accordance with recent amendments to the Rule promulgated by the United States Securities and Exchange Commission (the "SEC").

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 or filed with the SEC, as permitted the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information of the type described in the preceding paragraph by the required time and will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

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

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. As used in clauses 15 and 16 above, the phrase "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii); provided, however, the phrase shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule

**AVAILABILITY OF INFORMATION . . .** Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

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

the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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

#### **COMPLIANCE WITH PRIOR UNDERTAKINGS**

Except as described below, during the last five years the District has substantially complied in all material respects with its continuing disclosure agreements made in accordance with the Rule.

The District was delayed in filing its Annual Financial Operating Information and Audited Financial Statements for the fiscal year ended 2015 in accordance with the Rule. The District's annual filing was due February 29, 2016 but was filed on June 21, 2016.

#### **INFORMATION FROM EXTERNAL SOURCES**

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

#### **FINANCIAL ADVISOR**

Estrada Hinojosa & Company, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

#### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at an underwriting discount of \$49,803.01. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such 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 have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

#### **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Ritz & Associates, PA will deliver to the District, on or before the settlement date of the Bonds, a verification report indicating that it has verified, with respect to the Escrow Agreement, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Ritz & Associates, PA relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Ritz & Associates, PA has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.



## SCHEDULE I

### Schedule of Refunded Bonds

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
U/L Tax Sch Bldg Bds Ser 2009					
	8/15/2020	4.000%	\$ 325,000	6/24/2020	100.00
	8/15/2021	4.000%	340,000	6/24/2020	100.00
		Subtotal	\$ 665,000		
U/L Tax Ref Bds Ser 2011A					
Term 2025	8/15/2021	3.000%	\$ 55,000	8/15/2020	100.00
Term 2025	8/15/2022	3.000%	55,000	8/15/2020	100.00
Term 2025	8/15/2023	3.000%	55,000	8/15/2020	100.00
Term 2025	8/15/2024	3.000%	60,000	8/15/2020	100.00
Term 2025	8/15/2025	3.000%	60,000	8/15/2020	100.00
Term 2030	8/15/2026	4.000%	60,000	8/15/2020	100.00
Term 2030	8/15/2027	4.000%	65,000	8/15/2020	100.00
Term 2030	8/15/2028	4.000%	65,000	8/15/2020	100.00
Term 2030	8/15/2029	4.000%	70,000	8/15/2020	100.00
Term 2030	8/15/2030	4.000%	75,000	8/15/2020	100.00
	8/15/2032	4.000%	1,220,000	8/15/2020	100.00
	8/15/2033	3.550%	1,260,000	8/15/2020	100.00
	8/15/2034	4.000%	1,310,000	8/15/2020	100.00
		Subtotal	\$4,410,000		
Total			\$5,075,000		

## **APPENDIX A**

### **GENERAL INFORMATION REGARDING THE DISTRICT**

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**LOCATION**

West Oso Independent School District (“District”) is a political subdivision of the State of Texas located in an agricultural and petroleum producing area. Approximately one-third of the District’s area lies within the City of Corpus Christi, Texas (“Corpus Christi”). The growth of Corpus Christi and an increasing number of industries, warehousing and housing developments expanded the District’s economy. The Corpus Christi International Airport lies within the District.

**ADMINISTRATION**

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the “Board”). Members of the Board serve four-year staggered terms with elections being held in November of each even numbered year. The Board delegates administrative responsibilities to the Superintendent of Schools.

**ENROLLMENT AND FACILITIES**

The school facilities currently provided by the District include two elementary schools, one middle school, and one high school.

**AVERAGE DAILY ATTENDANCE**

Historical average daily attendance for the District is as follows:

School Year	Average Daily Attendance
2010-2011	1,856
2011-2012	1,959
2012-2013	1,844
2013-2014	1,756
2014-2015	1,828
2015-2016	1,876
2016-2017	1,909
2017-2018	1,914
2018-2019	1,930
2019-2020	1,911

**HISTORICAL ENROLLMENT**

Historical enrollment for the District is as follows:

School Year	Enrollment
2010-2011	2,043
2011-2012	2,115
2012-2013	2,033
2013-2014	1,902
2014-2015	1,987
2015-2016	2,012
2016-2017	2,057
2017-2018	2,105
2018-2019	2,095
2019-2020	2,105*

\*Projected.

**EMPLOYMENT STATISTICS**

	Nueces County			Texas		
	January 2020	January 2019	January 2018	January 2020	January 2019	January 2018
Civilian Labor Force	168,517	159,975	158,366	14,180,700	13,365,741	13,087,083
Total Employment	161,192	152,100	149,870	13,686,300	12,816,125	12,530,325
Total Unemployment	7,325	7,875	8,496	494,400	549,616	556,758
Percentage Unemployment	4.35%	4.92%	5.36%	3.49%	4.11%	4.25%

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## **APPENDIX B**

### **WEST OSO INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT**

For the Fiscal Year Ended August 31, 2019

The information contained in this Appendix consists of excerpts from the West Oso Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2019 and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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**WEST OSO INDEPENDENT SCHOOL DISTRICT**

***ANNUAL FINANCIAL REPORT***

***FOR THE YEAR ENDED AUGUST 31, 2019***



**Lovvorn & Kieschnick**

**CERTIFIED PUBLIC ACCOUNTANTS**

**LOVVORN & KIESCHNICK, LLP**

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**WEST OSO INDEPENDENT SCHOOL DISTRICT**

**DIRECTORY OF OFFICIALS**

**AUGUST 31, 2019**

**BOARD OF TRUSTEES**

JUAN CANALES	PRESIDENT
LUCAS C. JASSO	SECRETARY
LIZ GUTIERREZ	MEMBER
SHIRLEY JORDAN	MEMBER
CELLA BOYD	MEMBER
VELMA RODRIGUEZ	MEMBER
ROSE SOTO	MEMBER

**OTHER OFFICIALS**

CONRADO GARCIA	SUPERINTENDENT
DAVID PALACIOS	ASSISTANT SUPERINTENDENT OF BUSINESS FINANCE AND SCHOOL OPERATIONS

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West Oso Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2019

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West Oso Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2019

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*Introductory Section*

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CERTIFICATE OF BOARD

West Oso Independent School District  
Name of School District

Nueces  
County

178915  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the period ended August 31, 2019, at a meeting of the board of trustees of such school district on the 10th day of February, 2020.

Velma Rodriguez  
Board Secretary

Cella Boyd  
Board President

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

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*Financial Section*

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**Lovvorn & Kieschnick, LLP**  
418 Peoples Street, Ste. 308  
Corpus Christi, TX 78401

**Independent Auditor's Report**

To the Board of Trustees  
West Oso Independent School District  
5050 Rockford Drive  
Corpus Christi, Texas 78416

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Oso Independent School District ("the District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 West Oso Independent School District as of August 31, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As described in Note A to the financial statements, in 2019, West Oso Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2019, West Oso Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. 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, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Oso Independent School District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of West Oso Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Oso Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

*Lovvorn + Kieschnick, LLP*

Lovvorn & Kieschnick, LLP

Corpus Christi, TX  
February 7, 2020

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*Management's Discussion and Analysis*

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**WEST OSO INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2019  
UNAUDITED**

This section of West Oso Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2019. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

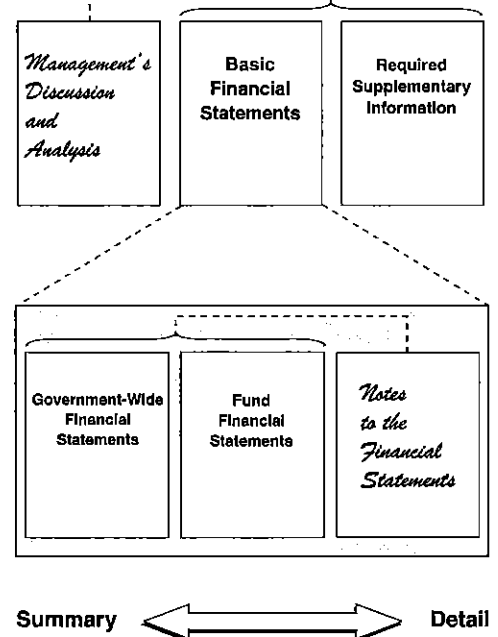
- The District's total combined net position was (\$4,048,972) at August 31, 2019.
- The District's current long-term obligations include \$35,934,412 in bonds and maintenance tax notes at August 31, 2019.
- During the year, the District's expenses were \$1,008,077 less than the \$27,131,030 generated in taxes and other revenues for governmental activities.
- The general fund, at August 31, 2019, reported a fund balance this year of \$2,983,817.
- In April 2019, the District issued \$9,250,000 Unlimited Tax School Building Bonds, Series 2019, to construct new central administration building, complete various athletic complex renovations, including new turf football field at high school stadium, and various renovations to existing facilities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



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

### **Government-wide Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their



intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position

The District's combined net position was (\$4,048,972). (See Table A-1.)

**Table A-1**  
West Oso Independent School District's Net Position  
(in millions of dollars)

	Governmental Activities		Total Percentage Change 2019-2018
	2019	2018	
Current and Other Assets	12.0	7.2	66.7%
Capital and Non-Current Assets	36.7	35.7	2.8%
<b>Total Assets</b>	<b>48.7</b>	<b>42.9</b>	<b>13.5%</b>
Deferred Outflows of Resources	5.8	2.9	100.0%
Current Liabilities	0.9	4.9	-81.6%
Noncurrent Liabilities	53.8	41.5	29.6%
<b>Total Liabilities</b>	<b>54.7</b>	<b>46.4</b>	<b>17.9%</b>
Deferred Inflows of Resources	3.9	4.4	-11.4%
<b>Net Position</b>			
Net Invested in Capital Assets	11.0	10.5	4.8%
Restricted	0.4	0.2	100.0%
Unrestricted	(15.5)	(15.7)	-1.3%
<b>Total Net Position</b>	<b>(4.1)</b>	<b>(5.0)</b>	<b>18.0%</b>

The (\$15.5) million of unrestricted net position represents the remainder of net position that is not restricted by parties outside the district.

### Changes in Net Position

The District's total revenues were \$27,131,030. A significant portion 42%, of the District's revenue comes from taxes, 40% comes from state aid-formula grants, while 17% of the revenue came from the operating grants, and 1% relates to investments, charges for services, and miscellaneous.

The total cost of all programs and services was \$26,122,953; 54% of these costs are for instructional and student services.

## Governmental Activities

- Property tax rates were \$1.17 for M & O (Maintenance & Operations) and \$0.28 for I & S (Interest and Sinking) for a total rate of \$1.45.

**Table A-2**  
Changes in West Oso Independent School District's Net Position  
(in millions of dollars)

	Governmental Activities		Total Percentage Change
	2019	2018*	2019-2018
<b>Program Revenues:</b>			
Operating Grants and Contributions	4.5	5.9	-23.7%
Charges for Services	0.1	0.1	0.0%
<b>General Revenues:</b>			
Property Taxes	11.5	11.2	2.7%
State Aid; Grants	11.0	6.0	83.3%
<b>Total Revenues</b>	<u>27.1</u>	<u>23.2</u>	16.8%
<b>Expenses:</b>			
Instruction	13.6	9.8	38.8%
Instructional Resources and Media Services	0.5	0.3	66.7%
Curriculum Dev. and Instructional Staff Dev.	0.2	0.2	0.0%
Instructional Leadership	0.2	0.2	0.0%
School Leadership	1.2	0.8	50.0%
Guidance, Counseling and Evaluation Services	0.9	0.6	50.0%
Health Services	0.2	0.1	100.0%
Student (Pupil) Transportation	0.3	0.3	0.0%
Food Services	1.4	1.2	16.7%
Curricular/Extracurricular Activities	0.9	0.7	28.6%
General Administration	1.5	1.0	50.0%
Plant Maintenance & Oper.	3.2	3.1	3.2%
Security & Monitoring Services	0.3	0.2	50.0%
Data Processing Services	0.3	0.2	50.0%
Interest on Long-term Debt	0.9	0.8	12.5%
Bond Issuance Costs & Fees	0.2	-	0.0%
Payment Related to Shared Service Arrangements	0.1	-	0.0%
Payment to Juvenile Justice Alternative Ed. Programs	0.1	0.1	0.0%
Other Intergovernmental Charges	0.1	0.1	0.0%
<b>Total Expenses</b>	<u>26.1</u>	<u>19.7</u>	-100.0%
<b>Increase/Decrease in Net Position</b>	<u>1.0</u>	<u>3.5</u>	-100.0%

- The cost of all *governmental* activities this year was \$26.1 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$11.5 million.

- Some of the cost that was paid by those who directly benefited from the programs amounted to \$73 thousand, or
- By grants and contributions \$4.5 million.

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

**Table A-3**  
Net Cost of Selected West Oso Independent School District Functions  
(in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2019	2018*	% Change	2019	2018*	% Change
Instruction	13.6	9.8	38.8%	11.3	6.0	88.3%
School Leadership	1.2	0.8	50.0%	1.1	0.7	57.1%
Food Services	1.4	1.2	16.7%	(0.1)	0.2	-150.0%
General Administration	1.5	0.1	1400.0%	1.4	0.9	55.6%
Plant Maintenance & Operations	3.2	3.1	3.2%	2.9	2.8	3.6%

\*Certain functional expenses reported for 2018 in Tables A-2 and A-3 were significantly reduced due to negative NECE expenses due to changes in benefits within the TRS-care plan.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$26.4 million, a \$0.3 million decrease from the preceding year. The decrease is primarily due to a decrease in federal funds.

### General Fund Budgetary Highlights

Actual expenditures were \$1,126,671 below the \$22,065,128 final budget amounts. The most significant variance resulted from the plant maintenance and operations function.

On the other hand, resources available were \$617,295 above the \$21,672,430 final budgeted amount. The variance resulted from increases in state sources and federal program revenues.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of August 31, 2019, the District had invested \$57.5 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

**Table A-4**  
West Oso Independent School District's Capital Assets  
(in millions of dollars)

	Governmental Activities		Total Percentage Change
	2019	2018	2019-2018
Intangibles	0.1	0.1	0.0%
Land	0.9	0.9	0.0%
Construction in progress	2.1	-	0.0%
Buildings and improvements	51.8	51.7	0.2%
Equipment	1.1	1.1	0.0%
Vehicles	1.5	1.5	0.0%
Totals at historical cost	<u>57.5</u>	<u>55.3</u>	4.0%
Total accumulated depreciation	<u>(20.8)</u>	<u>(19.6)</u>	6.1%
Net capital assets	<u><u>36.7</u></u>	<u><u>35.7</u></u>	2.8%

#### Long-Term Obligations

At year-end August 31, 2019, the District had \$36.0 million in bonds and maintenance tax notes outstanding as shown in Table A-5. More detailed information about the District's obligations is presented in the notes to the financial statements.

In April 2019, the District issued \$9,250,000 Unlimited Tax School Building Bonds, Series 2019, to construct new central administration building, complete various athletic complex renovations, including new turf football field at high school stadium, and various renovations to existing facilities.

The District had the following obligations at August 31, 2019:

**Table A-5**  
West Oso Independent School District's Long-Term Obligations  
(in millions of dollars)

	Governmental Activities		Total Percentage Change
	2019	2018	2019-2018
Bonds Payable	36.0	28.0	28.6%
Capital Leases	-	0.1	-100.0%
Net Pension Liability	8.0	4.8	66.7%
Net OPEB Liability	9.8	8.6	14.0%
Total Long-Term Obligations	<u><u>53.8</u></u>	<u><u>41.5</u></u>	29.6%

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

- Certified Tax Values used for the 2019-2020 budget preparation increased by \$20,612,830, reflecting Certified Values at \$802,514,155 or 2.6% increase from prior year values.
- The District's 2019-2020 average daily attendance is projected to be 1,925, up by 0.7%.
- The District's Tax rate changed to \$1.4081 (from 1.45), with Maintenance & Operation at \$1.0684 (House Bill 3 approved a compressed tax rate) and Interest and Sinking at \$0.3397. The Interest and Sinking rate reflects the District voters' approval on November 2018 of a \$12,000,000 bond issue for seven (7) projects, but only \$9,500,000 was sold in April 2019, to add Synthetic Turf to the football stadium and overlay the current track and construct a new District Administration Building (plus 5 other projects).

These indicators were taken into account when adopting the general fund budget for 2019-2020. Amounts available for appropriation in the general fund budget are \$23.4 million, an increase of 7.8% from the final 2018-2019 budget of \$21.7 million.

Expenditures are budgeted to increase 6.5% to \$23.0 million. Significant changes are related to the Teacher Salary Schedules reflecting a general increase of \$2,000 or \$2,500 from last year's schedules. Also, an increase of 3% of the midpoint for all other qualifying employees was reflected.

If these estimates are realized, the District's budgetary general fund balance should increase marginally by the close of 2020.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate 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 Administration Business Department.

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*Basic Financial Statements*

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**WEST OSO INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF NET POSITION

AUGUST 31, 2019

1

Data Control Codes	Governmental Activities
<b>ASSETS:</b>	
1110 <i>Cash and Cash Equivalents</i>	\$ 796,596
1120 <i>Current Investments</i>	8,495,187
1225 <i>Property Taxes Receivable (Net)</i>	461,575
1240 <i>Due from Other Governments</i>	2,211,620
1410 <i>Unrealized Expenses</i>	39,703
Capital Assets:	
1510 <i>Land</i>	899,642
1520 <i>Buildings and Improvements, Net</i>	33,322,342
1530 <i>Furniture and Equipment, Net</i>	382,821
1580 <i>Construction in Progress</i>	2,078,897
1000 <i>Total Assets</i>	<u>48,688,383</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
1701 <i>Deferred Charge for Refunding</i>	776,633
1705 <i>Deferred Outflow Related to Pensions</i>	4,236,122
1706 <i>Deferred Outflow Related to OPEB</i>	803,771
1700 <i>Total Deferred Outflows of Resources</i>	<u>5,816,526</u>
<b>LIABILITIES:</b>	
2110 <i>Accounts Payable</i>	375,513
2140 <i>Interest Payable</i>	47,746
2165 <i>Accrued Liabilities</i>	500,091
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	1,978,012
2502 <i>Due in More Than One Year</i>	33,956,396
2540 <i>Net Pension Liability</i>	8,029,527
2545 <i>Net OPEB Liability</i>	9,813,820
2000 <i>Total Liabilities</i>	<u>54,701,105</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
2605 <i>Deferred Inflow Related to Pensions</i>	625,292
2606 <i>Deferred Inflow Related to OPEB</i>	3,227,484
2600 <i>Total Deferred Inflows of Resources</i>	<u>3,852,776</u>
<b>NET POSITION:</b>	
3200 <i>Net Investment in Capital Assets</i>	11,015,261
Restricted For:	
3820 <i>Federal and State Programs</i>	381,578
3840 <i>Other</i>	26,423
3900 <i>Unrestricted</i>	(15,472,234)
3000 <i>Total Net Position</i>	<u>\$ (4,048,972)</u>

The accompanying notes are an integral part of this statement.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	<b>Governmental Activities:</b>				
11	Instruction	\$ 13,636,854	\$ 1,875	\$ 2,363,242	\$ (11,271,737)
12	Instructional Resources and Media Services	452,941	--	27,208	(425,733)
13	Curriculum and Staff Development	211,076	--	30,706	(180,370)
21	Instructional Leadership	233,523	--	18,884	(214,639)
23	School Leadership	1,207,678	--	75,644	(1,132,034)
31	Guidance, Counseling, & Evaluation Services	872,883	--	55,994	(816,889)
32	Social Work Services	1,278	--	65	(1,213)
33	Health Services	177,437	--	10,456	(166,981)
34	Student Transportation	341,268	--	16,145	(325,123)
35	Food Service	1,391,145	31,229	1,483,032	123,116
36	Cocurricular/Extracurricular Activities	913,768	40,262	40,434	(833,072)
41	General Administration	1,478,492	--	77,510	(1,400,982)
51	Facilities Maintenance and Operations	3,157,129	--	232,907	(2,924,222)
52	Security and Monitoring Services	336,327	--	11,498	(324,829)
53	Data Processing Services	264,826	--	15,125	(249,501)
61	Community Services	49,020	--	38,609	(10,411)
72	Interest on Long-term Debt	930,235	--	36,544	(893,691)
73	Bond Issuance Costs and Fees	185,614	--	--	(185,614)
81	Capital Outlay	45,676	--	195	(45,481)
93	Payments Related to Shared Services Arrangements	69,847	--	2,404	(67,443)
95	Payments to Juvenile Justice Alternative Ed. Programs	36,455	--	1,234	(35,221)
99	Other Intergovernmental Charges	129,681	--	--	(129,681)
TG	Total Governmental Activities	<u>26,122,953</u>	<u>73,366</u>	<u>4,537,836</u>	<u>(21,511,751)</u>
TP	Total Primary Government	<u>\$ 26,122,953</u>	<u>\$ 73,366</u>	<u>\$ 4,537,836</u>	<u>(21,511,751)</u>
	<b>General Revenues:</b>				
MT	Property Taxes, Levied for General Purposes				9,281,832
DT	Property Taxes, Levied for Debt Service				2,218,557
IE	Investment Earnings				170,276
GC	Grants and Contributions Not Restricted to Specific Programs				10,775,171
MI	Miscellaneous				73,992
TR	Total General Revenues				<u>22,519,828</u>
CN	Change in Net Position				1,008,077
NB	Net Position - Beginning (Restated)				(5,057,049)
NE	Net Position - Ending				<u>\$ (4,048,972)</u>

The accompanying notes are an integral part of this statement.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2019

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS:</b>				
1110	\$ 776,205	\$ 20,390	\$ --	\$ 796,595
1120	785,010	7,709,395	782	8,495,187
1225	367,115	--	94,460	461,575
1240	1,895,989	--	315,631	2,211,620
1410	39,703	--	--	39,703
1000	<u>3,864,022</u>	<u>7,729,785</u>	<u>410,873</u>	<u>12,004,680</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	\$ 92,772	\$ 225,290	\$ 57,451	\$ 375,513
2150	12,976	--	3,850	16,826
2160	407,342	--	75,923	483,265
2000	<u>513,090</u>	<u>225,290</u>	<u>137,224</u>	<u>875,604</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
2601	367,115	--	94,460	461,575
2600	<u>367,115</u>	<u>--</u>	<u>94,460</u>	<u>461,575</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3430	39,703	--	--	39,703
Restricted Fund Balances:				
3450	359,261	--	22,317	381,578
3480	--	--	125,190	125,190
3490	--	7,504,495	26,423	7,530,918
Assigned Fund Balances:				
3590	75,000	--	5,259	80,259
3600	2,509,853	--	--	2,509,853
3000	<u>2,983,817</u>	<u>7,504,495</u>	<u>179,189</u>	<u>10,667,501</u>
4000	<u>\$ 3,864,022</u>	<u>\$ 7,729,785</u>	<u>\$ 410,873</u>	<u>\$ 12,004,680</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 10,667,501
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	36,683,702
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	461,575
Payables for bond principal which are not due in the current period are not reported in the funds.	(31,086,680)
Payables for bond interest which are not due in the current period are not reported in the funds.	(47,746)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(1,984,842)
Deferred charge for refunding is expended in the funds, but is amortized in the statement of net position.	776,633
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(8,029,527)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(625,292)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	4,236,122
Bond premiums are amortized in the SNA but not in the funds.	(2,862,885)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(9,813,820)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(3,227,484)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	<u>803,771</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (4,048,972)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ 9,289,307	\$ 92,395	\$ 2,269,209	\$ 11,650,911
5800 <i>State Program Revenues</i>	10,975,968	--	154,372	11,130,340
5900 <i>Federal Program Revenues</i>	2,024,450	--	1,572,006	3,596,456
5020 <b>Total Revenues</b>	<u>22,289,725</u>	<u>92,395</u>	<u>3,995,587</u>	<u>26,377,707</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	10,285,808	--	1,710,684	11,996,492
0012 <i>Instructional Resources and Media Services</i>	410,949	--	--	410,949
0013 <i>Curriculum and Staff Development</i>	182,454	--	20,052	202,506
0021 <i>Instructional Leadership</i>	186,732	--	6,807	193,539
0023 <i>School Leadership</i>	1,038,324	--	--	1,038,324
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	765,776	--	--	765,776
0032 <i>Social Work Services</i>	1,278	--	--	1,278
0033 <i>Health Services</i>	150,601	--	--	150,601
0034 <i>Student Transportation</i>	258,881	--	--	258,881
0035 <i>Food Service</i>	1,241,506	--	13,220	1,254,726
0036 <i>Cocurricular/Extracurricular Activities</i>	864,857	--	918	865,775
0041 <i>General Administration</i>	1,334,553	--	2,757	1,337,310
0051 <i>Facilities Maintenance and Operations</i>	3,115,535	--	--	3,115,535
0052 <i>Security and Monitoring Services</i>	336,327	--	--	336,327
0053 <i>Data Processing Services</i>	229,405	--	--	229,405
0061 <i>Community Services</i>	9,573	--	38,270	47,843
0071 <i>Principal on Long-term Debt</i>	266,522	--	1,240,311	1,506,833
0072 <i>Interest on Long-term Debt</i>	18,393	--	1,061,587	1,079,980
0073 <i>Bond Issuance Costs and Fees</i>	--	182,814	2,800	185,614
0081 <i>Capital Outlay</i>	5,000	2,119,573	--	2,124,573
0093 <i>Payments to Shared Service Arrangements</i>	69,847	--	--	69,847
0095 <i>Payments to Juvenile Justice Alternative Education Programs</i>	36,455	--	--	36,455
0099 <i>Other Intergovernmental Charges</i>	129,681	--	--	129,681
6030 <b>Total Expenditures</b>	<u>20,938,457</u>	<u>2,302,387</u>	<u>4,097,406</u>	<u>27,338,250</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,351,268</u>	<u>(2,209,992)</u>	<u>(101,819)</u>	<u>(960,543)</u>
Other Financing Sources and (Uses):				
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	9,250,000	--	9,250,000
7916 <i>Premium on Issuance of Bonds</i>	--	443,094	--	443,094
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>--</u>	<u>9,693,094</u>	<u>--</u>	<u>9,693,094</u>
1200 <b>Net Change in Fund Balances</b>	<u>1,351,268</u>	<u>7,483,102</u>	<u>(101,819)</u>	<u>8,732,551</u>
0100 <b>Fund Balances - Beginning (Restated)</b>	<u>1,632,549</u>	<u>21,393</u>	<u>281,008</u>	<u>1,934,950</u>
3000 <b>Fund Balances - Ending</b>	<u>\$ 2,983,817</u>	<u>\$ 7,504,495</u>	<u>\$ 179,189</u>	<u>\$ 10,667,501</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ 8,732,551
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,224,221
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,214,633)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	173,900
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,445,312
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	61,522
Amortization of bond premium and deferred amount is an expense in the SOA but not in the funds.	141,922
The accretion of interest on capital appreciation bonds is not reported in the funds.	20,534
(Increase) decrease in accrued interest from beginning of period to end of period.	(12,711)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(9,250,000)
Bond premiums are reported in the funds but not in the SOA.	(443,093)
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(757,816)
The District's share of the unrecognized deferred inflows and outflows for the OPEB plan was amortized.	<u>(113,632)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 1,008,077</u>

The accompanying notes are an integral part of this statement.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 AUGUST 31, 2019

Data Control Codes		Agency Funds
	<b>ASSETS:</b>	
1110	<i>Cash and Cash Equivalents</i>	\$ 154,259
1000	Total Assets	<u>154,259</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2190	<i>Due to Student Groups</i>	\$ 154,259
2000	Total Liabilities	<u>154,259</u>
	<b>NET POSITION:</b>	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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# WEST OSO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2019

### A. Summary of Significant Accounting Policies

The basic financial statements of West Oso Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### 1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has 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 ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide Financial Statements:** The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

**General Fund:** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**Capital Projects Fund:** This fund is used to account for construction activities.

In addition, the District reports the following fund types:

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

items.

c. **Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	5-20
Vehicles	10
Office Equipment	3-10
Computer Equipment	5
Intangibles	3

d. **Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. **Receivable and Payable Balances**

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

Except for delinquent taxes, there are no significant receivables which are not scheduled for collection within one year of year end.

f. **Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. **Use of Estimates**

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

**Unassigned Fund Balance** - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

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

At August 31, 2019, the District reported the following:

Net Pension Asset	\$	
Net Pension Liability	\$	8,029,527

5. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to / deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

6. Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of the new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

**GASB 88 - Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements**

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

**GASB Statement No. 83, *Certain Asset Retirement Obligations***

This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

recognize a liability based on the guidance in this statement.

The District does not currently have any AROs and does not expect that implementation of the pronouncement will have an impact on the financial statements.

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Functional expenditures exceeded several functional appropriations in the General Fund, Child Nutrition Fund and Debt Service Fund.	In the future, the budget will be amended before overspending.

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Deposits and Investments**

**Legal and Contractual Provisions Governing Deposits and Investments**

The Public Funds Investment Act (Texas 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.

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, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$950,855 and the bank balance was \$1,232,793. The District's cash deposits at August 31, 2019 and during the year ended August 31, 2019, were

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

As of August 31, 2019 the District had the following investments and maturities:

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less than 1	1 to 2	2 to 3
Investment in TexPool	\$ 8,495,187	\$ 8,495,187	\$ --	\$ --
Total Fair Value	\$ 8,495,187	\$ 8,495,187	\$ --	\$ --

Interest Rate Risk - In accordance with state law and District policy, the District does not purchase any investments with maturities greater than 10 years.

Credit Risk - In accordance with state law and the District's investment policy investments in mutual funds, and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The District's investments in investment pools were rated AAA.

Concentration of Credit Risk - The District does not place a limit on the amount the District may invest in any one issuer. The District does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk 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. The District does not have a custodial credit risk.

The local government investment pool such as TexPool is not evidenced by securities in physical form. It is managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

Federated Investors manages the assets, provides participant services, and arranges for all custody and other functions in support of TexPool operations under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool, including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the District's position in TexPool is the same as the value of TexPool shares.

Limitations exist for withdrawals in this way: ACH (Automated Clearing House) withdrawals from TexPool are restricted to the account designated by the direct deposit form currently on record. The current authorized direct deposit form designates only the District Depository Bank as the entity to use for deposits or withdrawals by ACH. The Superintendent must authorize any new or replacement direct deposit form that would alter or replace the depository bank.

Limitations exist for wire transfers in this way: A Wire Transfer to or from TexPool requires two signatures from authorized representatives in order to be processed.

D. Capital Assets

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

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	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 899,642	\$ --	\$ --	\$ 899,642
Construction in progress	--	2,078,897	--	2,078,897
Total capital assets not being depreciated	<u>899,642</u>	<u>2,078,897</u>	<u>--</u>	<u>2,978,539</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	51,632,838	137,522	--	51,770,360
Equipment	1,123,419	7,802	--	1,131,221
Vehicles	1,523,261	--	--	1,523,261
Intangibles	113,796	--	--	113,796
Total capital assets being depreciated	<u>54,393,314</u>	<u>145,324</u>	<u>--</u>	<u>54,538,638</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,329,395)	(1,118,623)	--	(18,448,018)
Equipment	(1,007,049)	(26,362)	--	(1,033,411)
Vehicles	(1,168,602)	(69,648)	--	(1,238,250)
Intangibles	(113,796)	--	--	(113,796)
Total accumulated depreciation	<u>(19,618,842)</u>	<u>(1,214,633)</u>	<u>--</u>	<u>(20,833,475)</u>
Total capital assets being depreciated, net	<u>34,774,472</u>	<u>(1,069,309)</u>	<u>--</u>	<u>33,705,163</u>
Governmental activities capital assets, net	<u>\$ 35,674,114</u>	<u>\$ 1,009,588</u>	<u>\$ --</u>	<u>\$ 36,683,702</u>

Depreciation was charged to functions as follows:

Instruction	\$ 667,596
Instructional Resources and Media Services	18,648
Instructional Leadership	29,837
School Leadership	78,321
Guidance, Counseling, & Evaluation Services	44,755
Health Services	14,918
Student Transportation	69,648
Food Services	96,969
Extracurricular Activities	3,730
General Administration	37,296
Plant Maintenance and Operations	130,536
Data Processing Services	22,379
	<u>\$ 1,214,633</u>

**E. Interfund Balances and Activities**

1. Due To and From Other Funds

There were no balances due to and due from other funds at August 31, 2019.

2. Transfers To and From Other Funds

There were no transfers to and from other funds at August 31, 2019.

**F. Long-Term Obligations**

On April 4, 2019, the District issued \$9,250,000 Unlimited Tax School Building Bonds, Series 2019 in part as serial bonds and part as term bonds with interest rates varying from 3.50% to 4.00%. Proceeds from the sale of the Bonds



## WEST OSO INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2019

will be used (i) for the construction, renovation, acquisition and equipping of school buildings in the District, and the purchase of necessary sites; and (ii) to pay the costs of issuing the Bonds. The Bonds are secured by a levy of an annual ad valorem tax and is payable over a period of 30 years. Payments will be made semi-annually on February 15 and August 15 with the first payment due August 15, 2019 and the final payment due August 15, 2049. Bonds maturing on or after August 15, 2029 are subject to optional redemption prior to their scheduled maturities 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, 2028 or any date thereafter at the redemption price of par plus accrued but unpaid interest to such redemption date. The term bonds are also subject to mandatory sinking fund redemption prior to stated maturity.

#### 1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2019, are as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/18	Issued	Retired	Amounts Outstanding 8/31/19	Amounts Due Within One Year
<b>Bonds:</b>							
Unlimited Tax Refunding Bonds, Series 2007	3.60% to 4.125%	9,259,994	49,994	--	5,312	44,682	23,168
Unlimited Tax School Building Bonds, Series 2008	3.00% to 4.68%	7,000,000	250,000	--	250,000	--	--
Unlimited Tax School Building Bonds, Series 2009	1.50% to 4.83%	6,499,998	980,000	--	315,000	665,000	325,000
Unlimited Tax Refunding Bonds, Series 2011	2.00% to 3.00%	4,025,000	730,000	--	620,000	110,000	110,000
Unlimited Tax Refunding Bonds, Series 2011A	2.00% to 4.00%	4,910,000	4,535,000	--	50,000	4,485,000	50,000
Limited Maintenance Tax Notes Series 2012	1.99%	2,000,000	847,000	--	205,000	642,000	210,000
Unlimited Tax Refunding Bonds, Series 2016	3.00% to 4.00%	8,315,000	8,315,000	--	--	8,315,000	245,000
Unlimited Tax Refunding Bonds, Series 2017	2.00% to 4.00%	7,670,000	7,575,000	--	--	7,575,000	--

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Unlimited Tax							
School Building	3.50%						
Bonds,	to						
Series 2019	4.00%	9,250,000	--	9,250,000	--	9,250,000	165,000
Sub-Totals			<u>23,281,994</u>	<u>9,250,000</u>	<u>1,445,312</u>	<u>31,086,682</u>	<u>1,128,168</u>
Bond Accretion on Refundings			2,005,377	89,154	109,688	1,984,843	621,832
Bond Premiums			2,639,307	443,094	219,514	2,862,887	228,012
Capital Leases			61,522	--	61,522	--	--
Net Pension Liability			4,819,973	3,700,983	491,429	8,029,527	--
Net OPEB Liability			8,645,289	1,304,121	135,590	9,813,820	--
Total Governmental Activities			<u>\$ 41,453,462</u>	<u>\$ 14,787,352</u>	<u>\$ 2,463,055</u>	<u>\$ 53,777,759</u>	<u>\$ 1,978,012</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2019, are as follows:

Year Ending August 31	Governmental Activities					
	General Obligation Bonds			Maintenance Tax Notes		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 918,168	\$ 1,754,975	\$ 2,673,143	\$ 210,000	\$ 12,776	\$ 222,776
2021	841,514	1,850,129	2,691,643	214,000	8,597	222,597
2022	1,595,000	1,071,892	2,666,892	218,000	4,338	222,338
2023	1,645,000	1,016,093	2,661,093	--	--	--
2024	1,705,000	958,443	2,663,443	--	--	--
2025-2029	9,120,000	3,860,362	12,980,362	--	--	--
2030-2034	8,705,000	3,333,032	12,038,032	--	--	--
2035-2039	1,625,000	965,513	2,590,513	--	--	--
2040-2044	1,960,000	632,837	2,592,837	--	--	--
2045-2049	2,330,000	259,187	2,589,187	--	--	--
Totals	<u>\$ 30,444,682</u>	<u>\$ 15,702,463</u>	<u>\$ 46,147,145</u>	<u>\$ 642,000</u>	<u>\$ 25,711</u>	<u>\$ 667,711</u>

General Obligation Bonds are paid by the Debt Service Fund with supplemental support from the General Fund. Maintenance Tax Notes are paid by the General Fund.

Deceased Bonds Outstanding -

The District had no deceased bonds outstanding as of August 31, 2019.

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

West Oso Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Events 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 West Oso Independent School District.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2019, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and

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there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and 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.

2. Pension Plan Fiduciary Net Position

Detail 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 <https://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.

3. 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% (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 in (1.) above.

4. Contributions

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

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

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**Contribution Rates**

	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%

The contribution amounts for the District's fiscal year 2019 are as follows:

District's 2019 Employer Contributions	\$ 419,221
District's 2019 Member Contributions	\$ 1,011,712
2018 NECE On-Behalf Contributions (state)	\$ 622,334

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

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

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

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

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

**5. Actuarial Assumptions**

The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

# WEST OSO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2019

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	3.00%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

### 6. Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on the pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed the 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

<b>Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Rate of Return As of August 31, 2018</b>			
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns *</b>
<b>Global Equity</b>			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Return	0.0%	0.0%	0.0%
Stable Value Hedge Funds	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%

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<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy & Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation			2.3%
Alpha			-0.8%
<b>Total</b>	<b>100.0%</b>		<b>7.2%</b>

\* Target allocation are based on the FY 2016 policy model.

\*\* The expected contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate 5.907%	Discount Rate 6.907%	1% Increase in Discount Rate 7.907%
District's proportionate share of the net pension liability	\$ 12,118,482	\$ 8,029,527	\$ 4,719,276

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

At August 31, 2019, the District reported a liability of \$8,029,527 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 8,029,527
State's proportionate share that is associated with District	<u>10,174,741</u>
<b>Total</b>	<b><u>\$ 18,204,268</u></b>

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

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0145879%, which was an increase (decrease) of -0.0004865% from its proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation -**

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

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

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

For the year ended August 31, 2019, the District recognized pension expense of \$2,184,065 and revenue of \$1,007,028 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:  
(The amounts below will be the cumulative layers from the current and prior years combined)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 50,049	\$ 197,013
Changes in actuarial assumptions	2,895,031	90,470
Difference between projected and actual investment earnings	--	152,354
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	871,821	185,455
Contributions paid to TRS subsequent to the measurement date	419,221	--
<b>Total</b>	<b>\$ 4,236,122</b>	<b>\$ 625,292</b>

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

Year Ended August 31	Pension Expense Amount
2020	\$ 895,606
2021	\$ 574,986
2022	\$ 480,033
2023	\$ 492,237
2024	\$ 448,172
Thereafter	\$ 300,575

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I. Defined Other Post-Employment Benefit Plans

1. Plan Description

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

2. OPEB Plan Fiduciary Net Position

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

3. Benefits Provided

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

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

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

TRS-Care Monthly for Retirees January 1, 2018 thru December 31, 2018		
	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

\* or surviving spouse

4. Contributions

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75 percent of the



**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
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salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2018	2019
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
District's 2019 Employer Contributions	\$	117,473
District's 2019 Member Contributions	\$	85,404
2018 NECE On-Behalf Contributions (state)	\$	146,121

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether they participate in the TRS Care OPEB program). When hiring a TRS retiree, employers are required to pay to TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

5. Actuarial Assumptions

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

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed on the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in the 2018 CAFR for the Teacher Retirement System of Texas.

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

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

Additional Actuarial Methods and Assumptions:

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE FINANCIAL STATEMENTS  
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Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate *	3.69% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	3.00%
Projected Salary Increases	3.05% to 9.05%, including inflation ***
Healthcare Trend Rates **	8.50% **
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Ad Hoc Post-Employment Benefit Changes	None

\*Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

\*\*8.50% for FY2019, decreasing 0.5% per year to 4.50% for FY2027 and later years.

\*\*\* Includes inflation at 2.5%.

6. Discount Rate

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 11,681,817	\$ 9,813,820	\$ 8,336,113

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2019, the District reported a liability of \$9,813,820 for its proportionate share of the TRS's Net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 9,813,820
State's proportionate share that is associated with the District	\$ <u>10,591,141</u>
Total	\$ <u><u>20,404,961</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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The Net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the Total OPEB Liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB liability was based on the District's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2018 the District's proportion of the collective net OPEB liability was 0.0196548%, which was an increase (decrease) of -0.0002257% from its proportion measured as of August 31, 2017.

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
District's proportionate share of net OPEB liability	\$ 8,150,537	\$ 9,813,820	\$ 12,004,399

9. Changes Since the Prior Actuarial Valuation

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date - Please see the 2018 TRS CAFR, page 68, section B for a list of changes made effective September 1, 2017 by the 85th Texas Legislature.

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

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

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

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
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**FOR THE YEAR ENDED AUGUST 31, 2019**

listed below:

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

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

For the year ended August 31, 2019, the District recognized OPEB expense of \$616,347 and revenue of \$385,242 for support provided by the State.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 520,783	\$ 154,876
Changes in actuarial assumptions	163,766	2,948,490
Differences between projected and actual investment earnings	1,716	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	33	124,118
Contributions paid to TRS subsequent to the measurement date	117,473	--
<b>Total</b>	<b>\$ 803,771</b>	<b>\$ 3,227,484</b>

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

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Year ended August 31,	Amount
2020	\$ (401,684)
2021	\$ (401,684)
2022	\$ (401,684)
2023	\$ (402,009)
2024	\$ (402,194)
Thereafter	\$ (531,931)

10. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the current fiscal year ended August 31, 2019, the subsidy payment received by TRS-Care on behalf of the District was \$52,443.

J. Employee Health Care Coverage

During the year ended August 31, 2019, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$275 per month per employee and dependents to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third party administrator is renewable September 1, 2019, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Aetna are available for the year ended , have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

The District participates in 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, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2019.

L. Due From Other Governments

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

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
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**FOR THE YEAR ENDED AUGUST 31, 2019**

Fund	State Entitlements	Federal Grants	Total
General	\$ 1,855,957	\$ 40,032	\$ 1,895,989
Other Governmental Funds	252	315,378	315,630
Total	\$ 1,856,209	\$ 355,410	\$ 2,211,619

**M. Food Service Operations Reported in General Fund**

The District participates in a Texas Department of Agriculture Food and Nutrition Community Engagement Program. Under this program, the District does not charge students for meals. As required by the Financial Accountability System Resource Guide, revenues and expenditures for the Child Nutrition Program have been reported in the General Fund for 2018-2019. The following is a summary of the Food Service Operations included in the General Fund:

Data Control Codes	Revenue:	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
5700	Local	\$ 42,020	\$ 42,000	\$ 39,547	\$ (2,453)
5800	State Program	7,500	7,500	29,279	21,779
5900	Federal Program	1,228,000	1,228,000	1,502,948	274,948
5020	Total Revenue	1,277,520	1,277,500	1,571,774	294,274
	Expenditures:				
0035	Food Services	1,214,080	1,235,355	1,241,506	(6,151)
0051	Plant Maintenance and Operations	63,000	63,000	89,354	(26,354)
6030	Total Expenditures	1,277,080	1,298,355	1,330,860	(32,505)
7915	Operating Transfer In from Fund 199	--	--	--	--
1200	Net Change in Fund Balance	440	(20,855)	240,914	261,769
0100	Fund Balance - Beginning	118,347	118,347	118,347	--
3000	Fund Balance - Ending	\$ 118,787	\$ 97,492	\$ 359,261	\$ 261,769

**N. Fund Balances**

The following is a summary of Governmental Fund fund balances of the District at the year ended August 31, 2019:

General Fund	
Nonspendable:	
Prepaid Items	\$ 39,703
Restricted:	
Child Nutrition	359,261
Assigned:	
Other Assigned	75,000
Unassigned:	2,509,853
Total General Fund fund balance	2,983,817
Capital Projects Fund	
Restricted:	
Construction of Facilities	7,504,495

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Other Governmental Funds	
Assigned:	
Campus Activity Funds	5,259
Restricted:	
Summer Feeding Program	22,317
Citgo Petroleum Corporation	26,423
Retirement of Long-Term Debt	125,190
Total Restricted	<u>173,930</u>
Total Other Governmental Fund Balance	<u>179,189</u>
 Total Governmental Fund balance	 <u>\$ 10,667,501</u>

O. Construction Commitments

The District has several construction projects in various stages of development:

- \* New Central Administration building
- \* Various Athletic complex renovations including new turf football field at High School stadium
- \* Various renovations to existing facilities

Each of these projects are part of voter approved Bond Issues that are being managed by the District's administrative staff with support from architects, construction managers, legal counsel, and other related service providers. The school board is providing the oversight required by law and board policy. Any additional information may be requested from the Administration Office at (361) 806-5900.

P. Prior Period Adjustment

During fiscal year 2019, the District determined an amount due from state had been overstated. The restatement is as follows:

	General Fund	Government - wide Net Position
Beginning equity, as originally stated	\$ 1,730,128	\$ (4,959,469)
Restatement for due from state	(97,580)	(97,580)
Beginning equity, restated	<u>\$ 1,632,548</u>	<u>\$ (5,057,049)</u>

Q. Subsequent Events

In September and October 2019, the District took delivery of 3 school buses purchased with proceeds of a capital lease. Payments for the lease will be made by the General Fund with the first payment due November 25, 2019 and the final payment due November 25, 2021. The interest rate on the lease is 3.680%.

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### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

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Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 9,699,550	\$ 9,699,550	\$ 9,289,307	\$ (410,243)
5800	State Program Revenues	9,704,880	9,704,880	10,975,968	1,271,088
5900	Federal Program Revenues	2,268,000	2,268,000	2,024,450	(243,550)
5020	Total Revenues	<u>21,672,430</u>	<u>21,672,430</u>	<u>22,289,725</u>	<u>617,295</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	10,414,313	10,529,975	10,285,808	244,167
0012	Instructional Resources and Media Services	392,152	392,152	410,949	(18,797)
0013	Curriculum and Staff Development	380,383	380,383	182,454	197,929
	Total Instruction & Instr. Related Services	<u>11,186,848</u>	<u>11,302,510</u>	<u>10,879,211</u>	<u>423,299</u>
Instructional and School Leadership:					
0021	Instructional Leadership	298,354	298,354	186,732	111,622
0023	School Leadership	999,276	999,276	1,038,324	(39,048)
	Total Instructional & School Leadership	<u>1,297,630</u>	<u>1,297,630</u>	<u>1,225,056</u>	<u>72,574</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	875,786	875,786	765,776	110,010
0032	Social Work Services	--	--	1,278	(1,278)
0033	Health Services	156,661	156,661	150,601	6,060
0034	Student (Pupil) Transportation	459,705	459,705	258,881	200,824
0035	Food Services	1,214,080	1,235,355	1,241,506	(6,151)
0036	Cocurricular/Extracurricular Activities	755,302	851,340	864,857	(13,517)
	Total Support Services - Student (Pupil)	<u>3,461,534</u>	<u>3,578,847</u>	<u>3,282,899</u>	<u>295,948</u>
Administrative Support Services:					
0041	General Administration	1,145,445	1,145,445	1,334,553	(189,108)
	Total Administrative Support Services	<u>1,145,445</u>	<u>1,145,445</u>	<u>1,334,553</u>	<u>(189,108)</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,552,726	3,574,001	3,115,535	458,466
0052	Security and Monitoring Services	292,000	342,000	336,327	5,673
0053	Data Processing Services	173,216	193,216	229,405	(36,189)
	Total Support Services - Nonstudent Based	<u>4,017,942</u>	<u>4,109,217</u>	<u>3,681,267</u>	<u>427,950</u>
Ancillary Services:					
0061	Community Services	7,200	7,200	9,573	(2,373)
	Total Ancillary Services	<u>7,200</u>	<u>7,200</u>	<u>9,573</u>	<u>(2,373)</u>
Debt Service:					
0071	Principal on Long-Term Debt	222,700	293,526	266,522	27,004
0072	Interest on Long-Term Debt	--	18,393	18,393	--
0073	Bond Issuance Costs and Fees	--	4,200	--	4,200
	Total Debt Service	<u>222,700</u>	<u>316,119</u>	<u>284,915</u>	<u>31,204</u>
Capital Outlay:					
0081	Capital Outlay	--	--	5,000	(5,000)
	Total Capital Outlay	<u>--</u>	<u>--</u>	<u>5,000</u>	<u>(5,000)</u>
Intergovernmental Charges:					

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

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Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
0093	Payments to Fiscal Agent/Member Dist.-SSA	117,350	117,350	69,847	47,503
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	52,300	52,300	36,455	15,845
0099	Other Intergovernmental Charges	138,510	138,510	129,681	8,829
	Total Intergovernmental Charges	<u>308,160</u>	<u>308,160</u>	<u>235,983</u>	<u>72,177</u>
6030	Total Expenditures	<u>21,647,459</u>	<u>22,065,128</u>	<u>20,938,457</u>	<u>1,126,671</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	24,971	(392,698)	1,351,268	1,743,967
1200	Net Change in Fund Balance	<u>24,971</u>	<u>(392,698)</u>	<u>1,351,268</u>	<u>1,743,967</u>
0100	Fund Balance - Beginning (Restated)	1,730,128	1,632,548	1,632,548	--
3000	Fund Balance - Ending	<u>\$ 1,755,099</u>	<u>\$ 1,239,850</u>	<u>\$ 2,983,817</u>	<u>\$ 1,743,967</u>

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

	Measurement Year Ended August 31,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0145878868%	0.0150743737%	0.0152242825%	0.0152823000%	0.0088287000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 8,029,527	\$ 4,819,973	\$ 5,753,030	\$ 5,402,090	\$ 2,358,268
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	10,174,741	6,058,904	6,963,557	6,406,677	6,526,597
Total	<u>\$ 18,204,268</u>	<u>\$ 10,878,877</u>	<u>\$ 12,716,587</u>	<u>\$ 11,808,767</u>	<u>\$ 8,884,865</u>
District's Covered Payroll	\$ 13,421,309	\$ 13,042,523	\$ 13,042,523	\$ 12,056,623	\$ 11,893,310
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	59.83%	36.96%	44.11%	44.81%	19.83%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	73.74%	82.17%	78.00%	78.43%	83.25%

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

WEST OSO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 419,221	\$ 492,417	\$ 496,728	\$ 483,714	\$ 453,217
Contribution in Relation to the Contractually Required Contribution	(419,221)	(492,417)	(496,728)	(483,714)	(453,217)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 13,139,117	\$ 13,421,309	\$ 13,431,483	\$ 13,042,523	\$ 12,056,623
Contributions as a percentage of Covered Payroll	3.19%	3.67%	3.70%	3.71%	3.76%

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

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

	Measurement Year Ended August 31,	
	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0196547961%	0.0198805112%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 9,813,820	\$ 8,645,289
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	10,591,141	9,423,732
Total	<u>\$ 20,404,961</u>	<u>\$ 18,069,021</u>
District's Covered Payroll	\$ 13,421,309	\$ 13,042,523
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	73.12%	66.29%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	1.57%	0.91%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

WEST OSO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,	
	2019	2018
Contractually Required Contribution	\$ 117,473	\$ 136,377
Contribution in Relation to the Contractually Required Contribution	<u>(117,473)</u>	<u>(136,377)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 13,139,117	\$ 13,421,309
Contributions as a percentage of Covered Payroll	0.89%	1.02%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

## **WEST OSO INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED AUGUST 31, 2019*

#### **Budget**

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

#### **Defined Benefit Pension Plan**

##### *Changes of benefit terms*

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

##### *Changes of assumptions*

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



### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE*

*FOR THE YEAR ENDED AUGUST 31, 2019*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2010 and Prior Years	\$	Various	\$	Various	\$	Various
2011		1.04		.38		546,870,952
2012		1.04		.38		531,629,809
2013		1.04		.33		608,747,966
2014		1.17		.33		691,253,984
2015		1.17		.28		726,901,002
2016		1.17		.28		771,248,263
2017		1.17		.28		786,411,626
2018		1.17		.28		783,670,166
2019 (School Year Under Audit)		1.17		.28		819,166,571
1000 Totals						

10 Beginning Balance 9/1/18	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/19
\$ 162,725	\$ --	\$ 5,990	\$ 2,188	\$ (16,580)	\$ 137,967
54,780	--	1,466	536	--	52,778
69,307	--	1,658	606	(1)	67,042
44,717	--	2,242	711	(1)	41,763
49,763	--	3,130	535	--	46,098
65,227	--	5,756	1,378	52,709	110,802
79,051	--	9,941	2,379	40,473	107,204
174,945	--	44,774	10,715	22,448	141,904
326,892	--	112,320	26,880	21,347	209,039
--	11,604,850	8,767,938	2,098,304	(4,726)	733,882
<u>\$ 1,027,407</u>	<u>\$ 11,604,850</u>	<u>\$ 8,955,215</u>	<u>\$ 2,144,232</u>	<u>\$ 115,669</u>	<u>\$ 1,648,479</u>

Levies and Collections

Fiscal Year End	Levy Year	Adjusted Tax Levy	Current Collection	Percent of Levy
08/31/10	2010	7,399,670	7,067,603	95.51%
08/31/11	2011	7,416,502	7,185,305	96.88%
08/31/12	2012	7,282,876	7,023,818	96.44%
08/31/13	2013	8,115,716	7,854,847	96.79%
08/31/14	2014	9,158,151	8,989,939	98.16%
08/31/15	2015	10,273,620	10,004,396	97.38%
08/31/16	2016	10,873,839	10,521,161	96.76%
08/31/17	2017	10,987,255	10,671,213	97.12%
08/31/18	2018	11,011,062	10,684,170	97.03%
08/31/19	2019	11,600,124	10,866,242	93.67%

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)**  
**GENERAL FUND**  
**AS OF AUGUST 31, 2019**

EXHIBIT J-2

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2019 (Exhibit C-1 object 3000 for the General Fund only)	\$ 2,983,817
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	39,703
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	359,261
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	--
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	75,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
7	Estimate of two months' average cash disbursements during the fiscal year	3,832,183
8	Estimate of delayed payments from state sources (58XX)	1,856,209
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
10	Estimate of delayed payments from federal sources (59XX)	355,410
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	6,517,766
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ (3,533,949)

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive  
Unassigned General Fund Fund Balance:

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-3**

DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original		Final				
<b>REVENUES:</b>							
5700	Local and Intermediate Sources		\$ 2,263,859	\$ 2,263,859	\$ 2,212,334	\$ (51,525)	
5800	State Program Revenues		--	--	36,544	36,544	
5020	Total Revenues		<u>2,263,859</u>	<u>2,263,859</u>	<u>2,248,878</u>	<u>(14,981)</u>	
<b>EXPENDITURES:</b>							
Debt Service:							
0071	Principal on Long-Term Debt		1,195,423	1,195,423	1,240,311	(44,888)	
0072	Interest on Long-Term Debt		950,000	950,000	1,061,587	(111,587)	
0073	Bond Issuance Costs and Fees		2,800	2,800	2,800	--	
	Total Debt Service		<u>2,148,223</u>	<u>2,148,223</u>	<u>2,304,698</u>	<u>(156,475)</u>	
6030	Total Expenditures		<u>2,148,223</u>	<u>2,148,223</u>	<u>2,304,698</u>	<u>(156,475)</u>	
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures		<u>115,636</u>	<u>115,636</u>	<u>(55,820)</u>	<u>(171,456)</u>	
1200	Net Change in Fund Balance		<u>115,636</u>	<u>115,636</u>	<u>(55,820)</u>	<u>(171,456)</u>	
0100	Fund Balance - Beginning		181,010	181,010	181,010	--	
3000	Fund Balance - Ending		<u>\$ 296,646</u>	<u>\$ 296,646</u>	<u>\$ 125,190</u>	<u>\$ (171,456)</u>	

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**Lovvorn & Kieschnick, LLP**  
418 Peoples Street, Ste. 308  
Corpus Christi, TX 78401

Independent Auditor's Report on Internal Control over Financial Reporting and  
On Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With Government Auditing Standards

Board of Trustees  
West Oso Independent School District  
5050 Rockford Drive  
Corpus Christi, Texas 78416

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Oso Independent School District, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise West Oso Independent School District's basic financial statements, and have issued our report thereon dated February 7, 2020.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Lovvorn & Kieschnick, LLP".

Lovvorn & Kieschnick, LLP

Corpus Christi, TX  
February 7, 2020



**Lovvorn & Kieschnick, LLP**  
418 Peoples Street, Ste. 308  
Corpus Christi, TX 78401

Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees  
West Oso Independent School District  
5050 Rockford Drive  
Corpus Christi, Texas 78416

Members of the Board of Trustees:

**Report on Compliance for Each Major Federal Program**

We have audited the West Oso Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on West Oso Independent School District's major federal program for the year ended August 31, 2019. West Oso Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of West Oso Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the West Oso Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the West Oso Independent School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the West Oso Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2019.

## Report on Internal Control Over Compliance

Management of the West Oso Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the West Oso Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the West Oso Independent School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Lovvorn & Kieschnick, LLP

Corpus Christi, TX  
February 7, 2020

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

**2. Federal Awards**

Internal control over major programs:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Version of compliance supplement used in audit: August 2019

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?      Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.011A	Title I, Part A - Improving Basic Programs

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes      No

**B. Financial Statement Findings**

NONE

**C. Federal Award Findings and Questioned Costs**

NONE

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No prior findings		

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

Program

Corrective Action

N/A

No corrective action required

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**EXHIBIT K-1**

(1)	(2)	(2A)	(3)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>U. S. Department of Education</b>				
Passed Through State Department of Education:				
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	1961010117	\$ --	\$ 668,197
IDEA-B Cluster				
<i>IDEA-B Formula</i>	84.027A	1866000117891	--	98,908
<i>IDEA-B Formula</i>	84.027A	1966000117891	--	405,872
<i>IDEA-B Preschool</i>	84.173A	1966100117891	--	3,409
<i>Total IDEA-B Cluster</i>			--	508,189
<i>Career and Technical - Basic Grant</i>	84.048A	1942000617891	--	32,901
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	1969450117891	--	79,092
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365	1967100117895	--	16,325
<i>LEP Summer School</i>	84.369A	69551802	--	1,252
<i>Title IV, Part A, Subpart 1</i>	84.424A	1968010117891	--	48,048
<i>Restart Hurricane Recovery</i>	84.938A	1851170117891	--	50,101
<i>Emergency Impact Aid</i>	84.938C	51271901	--	142,891
Total Passed Through State Department of Education			--	1,546,996
Total U. S. Department of Education			--	1,546,996
<b>U. S. Department of Agriculture</b>				
Passed Through Texas Department of Agriculture:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	00877	--	457,217
National School Lunch Program	10.555	00877	--	939,169
Summer Feeding Program	10.559	00877	--	25,010
Total Child Nutrition Cluster			--	1,421,395
Commodity Supplemental Food Program	10.565	00877	--	72,558
NSLP Equipment Assistance Grant	10.579	00877	--	34,004
Total Passed Through Texas Department of Agriculture			--	1,527,958
Total U. S. Department of Agriculture			--	1,527,958
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ --	\$ 3,074,954

The accompanying notes are an integral part of this schedule.

**WEST OSO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Exhibit C-2	3,596,456
Less: School Health & Related Services (SHARS) reported in General Fund	<u>(521,502)</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>3,074,954</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of West Oso Independent School District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

West Oso Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINION**

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ESCAMILLA & PONECK, LLP

ATTORNEYS AND COUNSELORS

Phone (210) 225-0001 · FAX (210) 225-0041 · escamillaponeck.com

[Delivery Date]

**\$6,785,000.00**

**WEST OSO INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Nueces County)**

**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2020**

WE HAVE ACTED as Bond Counsel for the WEST OSO INDEPENDENT SCHOOL DISTRICT (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the 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 for no other purpose. In rendering the opinion herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds including the Escrow Agreement between the District and UMB Bank, N.A., Austin, Texas, as Escrow Agent (the "Escrow Agreement"), the report and mathematical verifications by Ritz & Associates, PA, Texas with respect to the adequacy of certain escrow funds to accomplish the refunding purposes of the Bonds (the "Verification Report") all as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

THE BONDS are being issued to provide funds to be used (i) for the construction, renovation, acquisition, and equipment of school buildings in the District, and the purchase of the necessary sites for school buildings, (ii) to establish an escrow fund pursuant to the Escrow Agreement between the District and Escrow Agent to refund those certain outstanding obligations of the District, and (iii) to pay for costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms. The Refunded Bonds, as defined in the Order, being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Fund and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. The Refunded Bonds being refunded, discharged, paid, and retired with certain of the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment

700 North St. Mary's Street, Suite 850 · San Antonio, Texas 78205

Austin Dallas El Paso Fort Worth Houston Mission San Antonio · Louisiana · Mexico City

from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapter 1207, Texas Government Code, as amended. In rendering this opinion, we have relied upon the verifications contained in the Verification Report as to the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Bonds.

The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases.

The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limits as to rate or amount, upon taxable property located within the District, except to the extent the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

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

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

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial

condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINION IS BASED on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

Respectfully,

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