

**OFFICIAL STATEMENT**  
**Dated February 16, 2021**

**NEW ISSUE - Book-Entry-Only**

**RATINGS: Enhanced/Unenhanced**  
**S&P: "AAA"/"A+"**  
**PSF Guaranteed**  
**(See "OTHER INFORMATION – Ratings"**  
**and "THE PERMANENT SCHOOL FUND**  
**GUARANTEE PROGRAM" herein)**

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

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

**\$4,240,000**  
**COTULLA INDEPENDENT SCHOOL DISTRICT**  
**(A Political Subdivision of the State of Texas located in La Salle County)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

**Dated: March 1, 2021**

**Due: August 15, 2021 and February 15 thereafter**  
**as shown on inside cover**

**Interest to accrue from Delivery Date (defined below)**

**PAYMENT TERMS . . .** The \$4,240,000 Cotulla Independent School District Unlimited Tax Refunding Bonds, Series 2021 (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 and will be payable on August 15 and February 15 of each year commencing August 15, 2021 until stated 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. 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 thereof.** Principal and interest on the Bonds will be payable by the Paying Agent/Registrar (defined herein) 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 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Cotulla Independent School District (the "District" or "Issuer") on December 14, 2020. As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms for the Bonds (the "Approval Certificate"). An authorized official of the District executed the Approval Certificate on February 16, 2021. The Bond Order and the Approval Certificate are collectively referred to herein as the "Order". 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 – Authority for Issuance and Purpose"). The District has received conditional approval from the Texas Education Agency of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for discussion of recent developments in Texas law affecting the financing of public school districts in Texas).

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (1) refund certain of the District's currently outstanding bonds, in the maturities, and in the amounts described on SCHEDULE I hereto (collectively, the "Refunded Bonds") and (2) pay costs of issuance of the Bonds. Simultaneously with the issuance of the Bonds, the Refunded Bonds will be called for redemption on the respective call dates reflected in SCHEDULE I.

\_\_\_\_\_  
**See following page for Maturity Schedule, Interest Rates, Yields, and CUSIP Numbers**  
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**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the initial purchaser thereof named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by their counsel, Locke Lord LLP, Austin, Texas.

**DELIVERY . . .** It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about March 16, 2021 (the "Delivery Date").

**SAMCO CAPITAL MARKETS**

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

**\$4,240,000  
UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

**CUSIP<sup>(1)</sup> Prefix: 222057**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> Suffix</u>
8/15/2021	\$ 230,000	3.000%	0.080%	HH7
2/15/2022	900,000	3.000%	0.120%	HJ3
2/15/2023	925,000	3.000%	0.160%	HK0
2/15/2024	705,000	3.000%	0.220%	HL8
2/15/2025	730,000	3.000%	0.300%	HM6
2/15/2026	750,000	3.000%	0.380%	HN4

**(Interest to accrue from the Delivery Date.)**

**REDEMPTION . . .** The Bonds will not be subject to redemption prior to maturity.

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The Underwriter, the District nor the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

*[The remainder of this page intentionally left blank.]*

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

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

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

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

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described.*

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 BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

*Neither the District, the Underwriter, nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its Book-Entry-Only system or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".*

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

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

*NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATED SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.*

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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	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax Debt	Per Capita Tax Debt	Ratio Debt to Taxable Assessed Valuation
2017	7,622	\$ 4,594,268,755	\$ 602,764	\$ 48,085,000	\$ 6,309	1.05%
2018	7,595	4,158,184,461	547,490	40,105,000	5,280	0.96%
2019	7,437	5,091,013,120	684,552	31,740,000	4,268	0.62%
2020	8,185	6,733,248,692	822,633	27,995,000	3,420	0.42%
2021	8,185	5,690,926,589	695,287	23,975,000 <sup>(2)</sup>	2,929	0.42%

<sup>(1)</sup> The District. FYE 2021 population held constant for purposes of illustration.

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

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	For Fiscal Year Ended August 31,				
	2020	2019	2018	2017	2016
Beginning Balance	\$ 29,535,702	\$ 28,079,569	\$ 30,162,979	\$ 32,493,791	\$ 31,104,690
Total Revenues	72,714,707	56,322,287	45,537,579	51,987,390	74,640,393
Total Expenditures	69,163,501	54,866,154	47,620,989	54,318,202	73,251,292
Net Transfers/Other Resources	-	-	-	-	-
Net Change in Fund Balance	3,551,206	1,456,133	(2,083,410)	(2,330,812)	1,389,101
Prior Period Adjustment	-	-	-	-	-
Ending Balance	<u>\$ 33,086,908</u>	<u>\$ 29,535,702</u>	<u>\$ 28,079,569</u>	<u>\$ 30,162,979</u>	<u>\$ 32,493,791</u>

Source: The District's audited annual financial statements.

For additional information regarding the District, please contact:

Dr. Jack Seals Superintendent Alfredo Vela Director of Finance 310 N. Main Street Cotulla, Texas 78014 830-879-3073 - Telephone 830-879-4334 - Fax	or	Robert A. Tijerina Tijerina Galvan Lawrence LLC 8000 West Interstate 10 Suite 610 San Antonio, Texas 78230 210-366-8033 - Telephone	or	Adrian Galvan Tijerina Galvan Lawrence LLC 101 Summit Avenue Suite 406 Fort Worth, Texas 76102 817-935-0888 - Telephone
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**DISTRICT ADMINISTRATION**

**ELECTED OFFICIALS**

<u>School Board Members</u>	<u>Term Expires</u>	<u>Occupation</u>
Deonicio Ramirez, Jr. President, Place #3	May 2023	Rancher/Gauger
Scott Reese Vice President, Place #4	May 2021	Rancher/Gauger
Kim Hoff Secretary, Place #1	May 2021	Retired Principal
Robert Ayala, Jr. Member, Place #5	May 2023	DPS Trooper
Robert Sanchez, Jr. Member, Place #2	May 2023	Plant Operator
Jamie L. Whitwell Member, Place #7	May 2022	Retired School Teacher
Raquel N. Yanez Member, Place #6	May 2022	Human Resources Director

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>
Dr. Jack Seals <sup>(1)</sup>	Superintendent of Schools	8 Years
Alfredo Vela	Finance Director	6 Years

<sup>(1)</sup> Dr. Seals announced his intentions to retire and the Board of Trustees accepted his resignation on November 16, 2020. Dr. Seals has announced his intention to continue to work with the District until June 30, 2021. The Board has contracted a consulting firm to assist the District to identify candidates for the position of Superintendent. The Board has announced intentions to hire a new Superintendent by April 2021.

**CONSULTANTS AND ADVISORS**

Auditors .....	Garza/Gonzalez & Associates San Antonio, Texas
Financial Advisor .....	Tijerina Galvan Lawrence LLC San Antonio, Texas
Bond Counsel .....	Escamilla & Poneck, LLP San Antonio, Texas

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**OFFICIAL STATEMENT  
RELATING TO**

**\$4,240,000**

**COTULLA INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

**INTRODUCTION**

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information regarding the issuance of \$4,240,000 Cotulla Independent School District Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the Cotulla Independent School District (the “District” or “Issuer”) on December 14, 2020 which authorized the issuance of the Bonds, except as otherwise indicated herein. The Bond Order delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms of the Bonds (the “Approval Certificate”). An authorized official of the District executed the Approval Certificate on February 16, 2021. The Bond Order and the Approval Certificate are referred to herein collectively as 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, Tjjerina Galvan Lawrence LLC, San Antonio and Dallas, Texas, in electronic format or 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 and 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 of the State of Texas located in La Salle County, Texas. The District is governed by the seven-member Board who serve three-year staggered terms with elections being held each year on the first Saturday in May. 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 1,365 square miles in area (see Appendix A – “General Information Regarding the District”).

**PLAN OF FINANCE**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (1) refund certain of the District’s currently outstanding bonds, in the maturities, and in the amounts described on SCHEDULE I hereto (collectively, the “Refunded Bonds”) and (2) pay costs of issuance of the Bonds.

**REFUNDED BONDS . . .** The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment, principal payment, and redemption dates of such obligations as shown on SCHEDULE I from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the “Escrow Agent”), pursuant to an escrow agreement (the “Escrow Agreement”) between the District and the Escrow Agent. The Order provides that from certain proceeds of the sale of the Bonds to the Underwriter, along with other lawfully available funds of the District, if any, the District will deposit with the Escrow Agent in an escrow fund (the “Escrow Fund”) established therewith under the Escrow Agreement the amount necessary to accomplish the discharge and final payment of the Refunded Bonds.

Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The District will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money held under the Escrow Agreement will be made available to redeem the Refunded Bonds. The Refunded Bonds will be called for redemption on the respective call dates reflected in SCHEDULE I.

Tjjerina Galvan Lawrence LLC, in its capacity as Financial Advisory to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund together with certain securities authorized by State law and the orders authorizing the Refunded Bonds (the “Escrowed Securities”) to be acquired and held in the Escrow Fund under the Escrow Agreement will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **The Escrow Fund and the maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds.**

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds in accordance with law. In the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and, therefore the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds therefore provided in the Escrow Agreement (see "APPENDIX C – Form of Bond Counsel's Opinion"). Upon defeasance of the Refunded Bonds the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of and interest on the Refunded Bonds if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds will be issuable 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 hereof and will be payable on August 15 and February 15 of each year commencing August 15, 2021 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 ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal 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 issued pursuant to (i) the authority conferred by the Constitution and the laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and (ii) the Bond Order. As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials to execute an "Approval Certificate" establishing the final pricing terms for the Bonds. An authorized official of the District executed the Approval Certificate on February 16, 2021. The Approval Certificate and the Bond Order are referred to herein collectively as the "Order".

**SECURITY AND SOURCE OF PAYMENT . . .** 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. **Additionally, the District has applied for and received conditional approval from the Texas Education Agency for 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 "PERMANENT SCHOOL FUND GUARANTEE" below).**

**PERMANENT SCHOOL FUND GUARANTEE . . .** In connection with the sale of the Bonds, the District has made an application for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). Subject to the District's approval of its application and subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas upon approval of the Bonds by the Texas Attorney General. 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 Bonds will not be subject to redemption prior to stated maturity.

**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 believes 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 (with regards to the Bonds and to the extent provided in the Order) 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 each maturity of 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 S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

Redemption, principal, and interest 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 of redemption proceeds, principal, and interest payments 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of

the Bonds are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered and the Bonds will be subject the transfer, exchange and registration provisions as set forth in the Order and summarized under "Transfer, Exchange and Registration" below.

**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 The Bank of New York Mellon Trust Company, N.A., Dallas, 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 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 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").

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 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. The District may limit these securities as deemed necessary in connection with the sale of the Bonds, and such limitation, if any, will be reflected in the Order and the final official statement. 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 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, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

**SOURCES AND USES OF BOND PROCEEDS . . .** Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	\$ 4,240,000.00
Premium	305,698.00
Total Sources of Funds	<u>\$ 4,545,698.00</u>
Uses:	
Deposit to Escrow Fund	\$ 4,397,357.67
Cost of Issuance	122,619.17
Underwriter's Discount	25,721.16
Total Uses of Funds	<u>\$ 4,545,698.00</u>

**THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

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

**History and Purpose**

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

consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and four citizen members appointed by the Governor. (See “2019 Texas Legislative Session” for a description of legislation that changed the composition of the SLB). As of August 31, 2020, the General Land Office (the “GLO”) managed approximately 15% 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 2020 SBOE distributions to the ASF amounted to an estimated \$347 per student and the total amount distributed to the ASF by the SBOE and SLB was \$1,701.7 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, 2020, when 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, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and 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, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 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 changed 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 are 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 July 2020. 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. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition 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, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

In accordance with legislation enacted during the 86<sup>th</sup> Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income, and that asset allocation is expected to be fully implemented in the first calendar quarter of fiscal year 2022. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 10%, 5% and 25%, respectively. At August 31, 2020, the market value of the liquidity account was \$4,050,631,451, of which 0.00% was equity investments, 39.43% was fixed income investments and 60.57% was cash.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be 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, 2020, the Fund's financial assets portfolio was invested as follows: 37.67% in public market equity investments; 14.39% in fixed income investments; 9.83% in absolute return assets; 13.31% in private equity assets; 8.66% in real estate assets; 3.24% in risk parity assets; 5.72% in real return assets; 6.83% in emerging market debt; and 0.35% in unallocated cash, exclusive of the liquidity account.

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 within those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

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

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

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

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

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

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

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

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times



the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from \$123,509,204,770 on August 31, 2019 to \$128,247,002,583 on August 31, 2020 (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 Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. 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 January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three 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, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. 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 6.15% in March 2020. 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% 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% 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% 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 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve

Fund contained \$43,875,326, which represented approximately 1.69% 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 is 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, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted 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, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA’s guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented “hold harmless” funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance>.

### Ratings of Bonds Guaranteed Under the Guarantee Program

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

### Valuation of the PSF and Guaranteed Bonds

#### Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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	35,288,344,219	46,464,447,981
2020 <sup>(2)</sup>	36,642,000,738	46,764,059,745

<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, 2020, 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, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At October 31, 2020, the PSF had a book value of \$37,040,181,304 and a market value of \$46,902,584,511. October 31, 2020 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds**

At 8/31	Principal Amount <sup>(1)</sup>
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 <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, 2020 (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 \$139,992,934,246, of which \$49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were \$90,336,680,245 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of October 31, 2020, 94.88% of Program capacity was available to the School District Bond Guarantee Program and 5.12% was available to the Charter District Bond Guarantee Program.

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

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 <sup>(2)</sup>	3296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

<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 October 31, 2020 (based on unaudited data, which is subject to adjustment), there were \$91,697,104,332 of bonds guaranteed under the Guarantee Program, representing 3,340 school district issues, aggregating \$89,106,892,332 in principal amount and 65 charter district issues, aggregating \$2,590,212,000 in principal amount. At October 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was \$5,702,716,863 (based on unaudited data, which is subject to adjustment).

**Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020**

The following discussion is derived from the Annual Report for the year ended August 31, 2020, 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) and, with respect to the liquidity account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was \$46.7 billion, an increase of \$0.2 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 updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). 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, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (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 -12.27%, 2.49%, and 5.15%, 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, 2020, 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, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2020, totaled \$2.0 billion in real estate investments and \$2.4 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, 2020, the remaining commitments totaled approximately \$2.73 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 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, under-performing the benchmark index of 8.54% by approximately 104 basis points. The Liquid(SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid(SBOE) asset classes produced an investment return, net of fees, of 2.35%, out-performing the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2.0 billion, a decrease of \$1.7 billion from fiscal year 2019 earnings of \$3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, 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 5.6% for the fiscal year ending August 31, 2020. 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 2019 and 2020, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled \$300 and \$600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed \$90.3 billion in bonds issued by 872 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 7,789 school district and charter district bond issues totaling \$202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.9 billion or 7.0%. The State Capacity Limit increased by \$4.7 billion, or 3.8%, during fiscal year 2020 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 2020 as the IRS Limit was reached in a 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 2.974% Distribution Rate equating to \$2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of \$92.2 million. 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. In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of \$875 million for the biennium.

Changes in the Distribution Rate for each biennial period have 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 another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from 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 or SLB 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 the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

### **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, 2020, 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 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 Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, 409 S.W. 3d 826 (Tex. 2016). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

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

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

### CURRENT PUBLIC SCHOOL FINANCE SYSTEM

*During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB 3”) and Senate Bill 2 (“SB 2”). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. The Texas legislature convened on January 12, 2021 and is scheduled to adjourn May 31, 2021 for the State’s 87<sup>th</sup> Legislative Regular Session. The State legislature may consider changes to current laws in changing the public finance system, the levy and collection of ad valorem taxes, and other relevant laws.*

*The District and Underwriters make no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.*

**OVERVIEW . . .** The following language constitutes only a summary of the 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 district’s boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations (“M&O”) tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not levy surplus M&O taxes for the purpose of paying

debt service on bonds. A district is authorized to levy their M&O tax at a constitutionally-mandated and voter-approved rate of up to \$1.50 per \$100 of taxable value in the district. 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, districts may levy a tax sufficient to pay debt service on such bonds unlimited as to rate or amount. Because property values vary widely among school districts, the amount of local funding generated among school districts for the same tax rate is also subject to wide variation, however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

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

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

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

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

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to \$0.93 for the 2019-2020 school year, or equal to the school district's MCR for the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (*i.e.*, the

guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (*see* “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two”).

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

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

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

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

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

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

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

factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

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

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

**LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT . . .** A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49

school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

## THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE COTULLA INDEPENDENT SCHOOL DISTRICT

The District's wealth per student for the 2020-21 school year is more than the equalized wealth value. Accordingly, the District has been required to exercise one of the permitted wealth equalization options and has elected to purchase attendance credits through the state for redistribution under the Foundation School Program to enable the 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 continue to 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.

## AD VALOREM PROPERTY TAXATION

*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 I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

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

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



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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see “AD VALOREM PROPERTY TAXATION – 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.

**TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . .** The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption,

reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no historical judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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

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

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

For a discussion of how the various exemptions described above are applied by the District, see “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. See "AD VALOREM TAX PROCEDURES - Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments

with the first due on February 1 of each year and the final installment due on August 1. See “AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

## **TAX RATE LIMITATIONS**

**M&O TAX RATE LIMITATIONS . . .** 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 August 21, 1965 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

The 2019 Legislation established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by 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 issued as refunding bonds and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of “new debt”. 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.

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.

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).

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.

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 grants an additional exemption to the market value of the residence homestead of persons 65 years of age or older or disabled of \$10,000.

The District does not tax nonbusiness personal property.

The District does not permit split payments, but discounts are allowed.

The District currently has no tax abatements.

**TABLE 1 – VALUATION EXEMPTIONS AND TAX SUPPORTED DEBT**

2020 Market Valuation Established by La Salle County Central Appraisal District		\$ 7,350,075,351
Less Exemptions/Reductions at 100% Market Value:		
\$25K Homestead exemption loss	24,344,034	
\$10K over 65 homestead exemption loss	3,449,139	
Total value lost to 100% disabled and disabled person	446,802	
Disabled Veteran/Disabled Veteran Surviving Spouse	341,928	
Productivity Loss	1,528,365,241	
10% Cap Loss	4,338,998	
Exempt Property	75,150,471	
Pollution Control Exemption Loss	<u>9,566,542</u>	<u>1,646,003,155</u>
2020 Taxable Assessed Valuation		\$ 5,704,072,196
Deduct: Loss of Value for Over 65 Frozen Accounts		<u>13,145,607</u>
2020 Taxable Assessed Valuation (after freeze)		<b><u>\$ 5,690,926,589</u></b>
Debt Payable from Ad Valorem Taxes (as of March 16, 2021)		
Unlimited Tax Refunding Bonds, Series 2010	\$ -	(1)
Unlimited Tax Refunding Bonds, Series 2012	-	(1)
Unlimited Tax Refunding Bonds, Series 2015	2,345,000	
Unlimited Tax School Building Bonds, Series 2017	17,620,000	
The Bonds	<u>4,240,000</u>	<u>24,205,000</u>
<b>Total Ad Valorem Tax Obligations</b>		<b>\$ 24,205,000</b>
Interest and Sinking Fund (as of August 31, 2020)		\$2,252,060
Ratio Funded Tax Supported Net Debt to Taxable Assessed Valuation (after freeze)		0.43%
	2020 Estimated Population	8,185
	Per Capita Taxable Assessed Valuation (after freeze)	\$ 695,287
	Per Capita Total Outstanding Debt	\$ 2,957

(1) Excludes the Refunded Bonds.

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

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2021		2020		2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 91,711,015	1.25%	\$ 95,441,479	1.12%	\$ 121,271,744	1.99%
Real, Residential, Multi-Family	3,680,850	0.05%	4,811,960	0.06%	-	0.00%
Real, Vacant Lots/Tracts	18,562,930	0.25%	18,621,347	0.22%	985,483	0.02%
Real, Acreage (Land Only)	1,644,084,134	22.37%	1,715,704,446	20.21%	990,808,288	16.29%
Real, Farm and Ranch Improvements	9,026,830	0.12%	64,476,998	0.76%	5,587,503	0.09%
Real, Commercial	101,043,240	1.37%	111,475,052	1.31%	104,242,444	1.71%
Real, Industrial	311,276,970	4.24%	362,335,690	4.27%	359,520,680	5.91%
Real, Oil, Gas, and Other Mineral Reserves	3,760,822,241	51.17%	4,885,021,257	57.56%	3,389,760,670	55.73%
Real and Tangible Personal, Utilities	864,982,880	11.77%	724,826,840	8.54%	676,334,030	11.12%
Tangible Personal, Commercial & Industrial	454,899,950	6.19%	441,417,160	5.20%	391,632,471	6.44%
Tangible Personal, Mobile Homes	14,833,840	0.20%	15,821,490	0.19%	13,643,386	0.22%
Tax Exempt	75,150,471	1.02%	47,379,258	0.56%	28,902,641	0.48%
Total Appraised Value	\$ 7,350,075,351	100.00%	\$ 8,487,332,977	100.00%	\$ 6,082,689,340	100.00%
Less: Total Reductions	(1,646,003,155)		(1,741,133,409)		(981,407,316)	
Less: Loss Value for over 65 Freeze	(13,145,607)		(12,950,876)		(10,268,904)	
Taxable Assessed Valuation	\$ 5,690,926,589		\$ 6,733,248,692		\$ 5,091,013,120	

Category	Taxable Appraised Value For Fiscal Year Ended August 31,			
	2018		2017	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 72,171,490	1.41%	\$ 71,533,620	1.29%
Real, Residential, Multi-Family	218,430	0.00%	218,430	0.00%
Real, Vacant Lots/Tracts	5,917,220	0.12%	5,703,140	0.10%
Real, Acreage (Land Only)	1,000,030,570	19.58%	986,751,230	17.79%
Real, Farm and Ranch Improvements	22,963,770	0.45%	38,078,210	0.69%
Real, Commercial	103,813,290	2.03%	114,816,240	2.07%
Real, Industrial	192,336,100	3.77%	174,640,910	3.15%
Real, Oil, Gas, and Other Mineral Reserves	2,422,414,110	47.43%	2,798,876,484	50.47%
Real and Tangible Personal, Utilities	766,757,160	15.01%	785,714,370	14.17%
Tangible Personal, Commercial & Industrial	503,292,790	9.85%	552,515,460	9.96%
Tangible Personal, Mobile Homes	17,507,700	0.34%	16,533,940	0.30%
Tax Exempt	-	0.00%	-	0.00%
Total Appraised Value	\$ 5,107,422,630	100.00%	\$ 5,545,382,034	100.00%
Less: Total Reductions	(945,001,660)		(947,326,670)	
Less: Loss Value for over 65 Freeze	(4,236,509)		(3,786,609)	
Taxable Assessed Valuation	\$ 4,158,184,461		\$ 4,594,268,755	

<sup>(1)</sup> Source: The La Salle County Appraisal District. 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.

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

Fiscal Year Ended	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio Funded	
					Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2012	6,639	\$ 878,666,691	\$ 132,349	\$21,963,000	2.50%	\$ 3,308
2013	6,748	2,372,667,832	351,611	26,075,000	1.10%	3,864
2014	7,397	4,650,987,300	628,767	21,860,000	0.47%	2,955
2015	7,495	7,036,213,042	938,788	40,330,000	0.57%	5,381
2016	7,560	6,951,868,672	919,559	33,015,000	0.47%	4,367
2017	7,622	4,594,268,755	602,764	48,085,000	1.05%	6,309
2018	7,595	4,158,184,461	547,490	40,105,000	0.96%	5,280
2019	7,437	5,091,013,120	684,552	31,740,000	0.62%	4,268
2020	8,185	6,733,248,692	822,633	27,995,000	0.42%	3,420
2021	8,185	5,690,926,589	695,287	23,975,000 <sup>(3)</sup>	0.42%	2,929

<sup>(1)</sup> Source: The District. FYE 2021 population held constant for purposes of illustration.

<sup>(2)</sup> Source: La Salle County Appraisal District.

<sup>(3)</sup> Includes the Bonds and excludes the Refunded Bonds.

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

Fiscal Year Ended	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2012	\$ 1.23390	\$ 1.08400	\$ 0.14990	\$ 10,722,236	96.43%	99.37%
2013	1.11400	1.04000	0.07400	26,466,393	100.00%	101.70%
2014	1.15400	1.04000	0.11400	53,669,934	106.98%	107.00%
2015	1.14340	1.06000	0.08340	80,295,623	99.58%	99.84%
2016	1.18680	1.06000	0.12680	82,491,574	98.73%	99.88%
2017	1.26560	1.06000	0.20560	58,116,773	96.79%	98.43%
2018	1.31630	1.06000	0.25630	54,744,482	97.16%	98.45%
2019	1.26100	1.06000	0.20100	64,167,078	98.00%	100.41%
2020	1.06580	0.99000	0.07580	71,843,162	100.72%	101.32%
2021	1.07098	0.97640	0.09458	60,948,686 <sup>(1)</sup>	In process of collections	

Source: Cotulla Independent School District's Audited Financial Statements.

<sup>(1)</sup> FYE 2021 levy calculated based on the taxable assessed valuation shown on Table 3.

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**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2020	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation <sup>(1)</sup>
EOG Resources Inc	Oil & Gas	\$ 607,482,230	10.67%
EP Energy E&P Co LP	Oil & Gas	453,908,861	7.98%
Callon (Eagle Ford) LLC	Oil & Gas	356,787,077	6.27%
Chesapeake Operating LLC	Oil & Gas	246,662,505	4.33%
BHP Billiton PET Co	Oil & Gas	187,458,250	3.29%
Lewis Petro Properties Inc	Oil & Gas	132,071,810	2.32%
XTO Energy Inc	Oil & Gas	126,791,930	2.23%
Gulf Coast Express	Pipeline	100,000,370	1.76%
Enterprsie Texas Pipeline LP	Pipeline	86,789,340	1.53%
WGR Operating LP	Oil & Gas	78,691,740	1.38%
		<u>\$ 2,376,644,113</u>	<u>41.76%</u>

As shown in the table above, the top ten taxpayers in the District currently account for over 41% of the District’s tax base. Adverse developments in economic conditions, especially in a particular industry in which one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process that may only occur annually.

<sup>(1)</sup> As shown in the table above, the total combined top ten taxpayers in the District currently account for over 40% of the District’s tax base. In addition, the top taxpayer in the District currently accounts for 10.67% of the District’s tax base, thereby creating a concentration risk for the District. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See “THE BONDS – Default and Remedies”, “AD VALOREM TAXATION - The Tax Code as Applied to the District”, “THE BONDS – Bondholders’ Remedies” and “AD VALOREM PROPERTY TAXATION – Penalties and Interest” herein.

**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

Certain 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 bonds ("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	Tax Rate	Tax Debt as of 03/16/2021	Estimated %	District's Overlapping Funded Debt	Authorized but Unissued Tax Debt as of 03/16/2021
Cotulla ISD	\$5,690,926,589	\$ 1.07098	\$ 24,205,000 <sup>(1)</sup>	100.00%	\$ 24,205,000 <sup>(1)</sup>	\$ 500,000
City of Cotulla	189,049,093	0.70000	20,746,000	100.00%	20,746,000	-
City of Encinal	25,810,405	0.67910	1,610,000	100.00%	1,610,000	-
La Salle County	6,182,345,433	0.50000	52,647,000	91.54%	<u>48,193,064</u>	-
Total Direct and Overlapping Tax Debt					\$ 94,754,064 <sup>(1)</sup>	
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation					1.67%	
Per Capita Overlapping Debt					\$ 11,577	

<sup>(1)</sup> Includes the Bonds and excludes the Refunded Bonds.



**DEBT INFORMATION**

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

FYE 8/31	Outstanding Debt <sup>(1)</sup>			The Bonds			Total	% of
	Principal	Interest	Total	Principal	Interest	Total	Debt Service Requirements	Principal Retired
2021	\$ 3,650,000	\$ 965,125	\$ 4,615,125	\$ 230,000	\$ 52,647	\$ 282,647	\$ 4,897,772	
2022	3,075,000	783,800	3,858,800	900,000	106,800	1,006,800	4,865,600	
2023	3,195,000	657,875	3,852,875	925,000	79,425	1,004,425	4,857,300	
2024	3,325,000	528,050	3,853,050	705,000	54,975	759,975	4,613,025	
2025	3,460,000	391,775	3,851,775	730,000	33,450	763,450	4,615,225	72.5%
2026	3,640,000	219,250	3,859,250	750,000	11,250	761,250	4,620,500	
2027	3,270,000	65,400	3,335,400	-	-	-	3,335,400	100.0%
	<u>\$ 23,615,000</u>	<u>\$ 3,611,275</u>	<u>\$ 27,226,275</u>	<u>\$ 4,240,000</u>	<u>\$ 338,547</u>	<u>\$ 4,578,547</u>	<u>\$ 31,804,822</u>	

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

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

Estimated Tax Supported Debt Service Requirements, Fiscal Year End 8/31/2021		\$ 4,897,772 <sup>(1)</sup>
Interest and Sinking Fund Balance at 8/31/20	2,252,060	
Estimated Interest and Sinking Fund Tax Levy @ 99% Collections	5,113,354	
Estimated Existing Debt Allotment/ Instructional Facilities Allotment State Aid	<u>-</u>	<u>7,365,414</u>
Estimated Balance at 8/31/21		<u>\$ 2,467,643</u>

NOTE: The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for Local School Districts." herein).

<sup>(1)</sup> Includes the Bonds and excludes the Refunded Bonds.

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

As of March 16, 2021, the District will have authorized but unissued unlimited tax bonds in the amount of \$500,000 from an election held on November 4, 2014.

**ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . .** After the issuance of the Bonds, the District does not anticipate the issuance any additional unlimited tax debt in fiscal year ending 2021. The District may also incur other financial obligations, including maintenance tax notes payable from the collection of maintenance taxes, public property finance contractual obligations, delinquent maintenance tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**TABLE 10 – OTHER OBLIGATIONS . . .** As of March 16, 2021, the District has no other obligations.

**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, “Cotulla Independent School District Annual Financial Report for Fiscal Year Ended August 31, 2020” - Note H).

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**FINANCIAL INFORMATION**

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

Revenues	Ended August 31,				
	2020	2019	2018	2017	2016
Total Local and Intermediate Sources	\$ 68,411,235	\$ 54,439,085	\$ 43,747,356	\$ 48,359,861	\$ 73,251,559
State Program Revenues	3,657,331	1,508,434	1,350,916	3,309,185	1,014,322
Federal Program Revenues	646,141	374,768	439,307	318,344	374,512
Total Revenues	<u>\$ 72,714,707</u>	<u>\$ 56,322,287</u>	<u>\$ 45,537,579</u>	<u>\$ 51,987,390</u>	<u>\$ 74,640,393</u>
<b>Expenditures</b>					
Instruction	\$ 10,121,511	\$ 8,832,637	\$ 8,987,353	\$ 8,355,925	\$ 8,173,686
Instructional Resources & Media Services	222,993	212,071	205,676	205,191	193,568
Curriculum & Instructional Staff Dev.	192,182	172,749	169,117	163,768	157,734
Instructional Leadership	12,262	15,041	18,978	22,797	12,959
School Leadership	1,009,363	920,551	907,717	914,685	836,936
Guidance, Counseling & Evaluation Services	492,681	540,617	467,548	478,749	483,871
Health Services	229,889	191,727	198,358	191,607	194,762
Student (Pupil) Transportation	521,760	467,697	432,374	396,588	400,386
Food Services	-	-	-	-	-
Extracurricular Activities	996,072	1,154,717	1,116,983	1,037,829	1,092,427
General Administration	1,032,519	912,666	890,182	926,986	819,369
Facilities Maintenance & Operations	2,185,883	2,193,681	2,108,880	2,202,119	1,964,371
Security and Monitoring Services	62,065	71,711	71,484	64,527	63,350
Data Processing Services	417,384	519,490	479,550	514,092	524,754
Community Services	143,319	132,645	131,398	139,231	117,808
Debt Service	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Contracted Instructional Services Between Schools	50,219,141	37,326,137	30,425,631	37,619,362	57,293,685
Payments to Fiscal Agent/Member District of SSA	344,977	327,117	287,990	300,483	261,565
Other Intergovernmental Charges	959,500	874,900	721,770	784,263	660,061
Total Expenditures	<u>\$ 69,163,501</u>	<u>\$ 54,866,154</u>	<u>\$ 47,620,989</u>	<u>\$ 54,318,202</u>	<u>\$ 73,251,292</u>
Excess (Deficiency) of					
Revenues Over (Under) Expenditures	<u>\$ 3,551,206</u>	<u>\$ 1,456,133</u>	<u>\$ (2,083,410)</u>	<u>\$ (2,330,812)</u>	<u>\$ 1,389,101</u>
<b>Other Financing Sources (Uses)</b>					
Other Resources	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer In	-	-	-	-	-
Transfer Out (Use)	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ 3,551,206	\$ 1,456,133	\$ (2,083,410)	\$ (2,330,812)	\$ 1,389,101
Fund Balance - September 1 (Beginning)	29,535,702	28,079,569	30,162,979	32,493,791	31,104,690
Prior Period Adjustments	-	-	-	-	-
Fund Balance - August 31 (Ending)	<u>\$ 33,086,908</u>	<u>\$ 29,535,702</u>	<u>\$ 28,079,569</u>	<u>\$ 30,162,979</u>	<u>\$ 32,493,791</u>

Source: District's audited financial statements.

## 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 - "Cotulla Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2020").

*General Fund Balance* . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 90 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** . . . Current Texas law provides the District authority to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, (8) interest-bearing banking deposits other than those described in (7) if (a) the funds are invested by the District through a. a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or b. a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the banking deposits is insured by the United States or an instrumentality of the United States, and (d) the District appoints as custodian of the banking deposits the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating 34 pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit and share certificates (i) issued by or through an institution that either has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the District through a. a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or b. a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating 34 pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) 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; and (iv) the agreement to lend securities has a term of one year or less, (12) 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, (13) 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, (14) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts subject to the limitations set forth in Chapter 2256, Texas Government Code, as amended.

A political subdivision such as the District may enter into 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 (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, 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; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

**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**

As of August 31, 2020, the District's investable funds were invested as follows:

<b>Investment Type</b>	<b>Maturity</b>	<b>Credit Rating</b>	<b>Fair Value</b>
Texas Term - Investment Pool	1	AAAf	\$ 10,052
First Public - Investment Pool	1	AAA	37,009,399
Discount Commercial Paper	94	-	9,984,366
Certificates of Deposit	385	N/A	526,413
<b>Total Investments</b>			<b>\$ 47,530,230</b>

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

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

In rendering the foregoing opinions, Bond Counsel will rely upon the Sufficiency Certificate of Tijerina Galvan Lawrence LLC concerning the sufficiency of the deposit to the Escrow Fund on the Delivery Date and the representations and certifications of the District pertaining to the use, expenditure and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owner thereof for federal income taxes from the date of the issuance of the Bonds. Bond Counsel has not been retained by the District to monitor such post-issuance compliance.

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

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

**ANCILLARY TAX CONSEQUENCES . . .** Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Pursuant to Public Law No. 115-97 (i.e., the Tax Cuts and Jobs Act), for tax years beginning after December 31, 2017, the corporate alternative minimum tax is repealed. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

However, such accrued interest may be required to be taken into account in determining the alternative minimum tax on corporations for tax years that began before January 1, 2018 and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax, consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax- exempt obligations.

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

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

**TAX ACCOUNTING TREATMENT OF PREMIUM BONDS . . .** The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institutions," 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 issues" 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 will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded, however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."

## OTHER INFORMATION

**RATING. . .** The Bonds have been rated "AAA" by virtue of the Permanent School Fund Guarantee. Certain portions of the District's currently outstanding tax supported debt of the District are rated "AAA" by S&P and/or "AAA" by Fitch Ratings by virtue of the Permanent School Fund Guarantee (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). An explanation of such ratings may be obtained from S&P. The ratings will reflect only the view of such organization at the time such ratings are given, and the District will make no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

**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 October 7, 2020 of Executive Order GA-32, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should

use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-32 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-32 remains in place until amended, rescinded, or superseded by the Governor.

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.

On December 10, 2020, TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction, non-UIL extracurricular sports and activities, and other activities that cannot be accomplished virtually. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan for on-campus instruction (posted one week prior to the commencement of in person education) in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first three six weeks of Foundation School Program reporting. Specifically, if ADA counts during those three six weeks are more than 1% less than the first three six weeks of the 2019- 2020 school year, the first two six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

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. In addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

The financial and operating data contained in this Official Statement are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the District.

**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 their payment or security or in any manner question the validity of the Bonds.

The District represents that 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 - Ratings" 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 bonds 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.

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" (except for the information contained in the subcaptions "Sources and Uses of Bond Proceeds," "Permanent School Fund Guarantee," "Bondholders' Remedies," and "Book-Entry-Only System" as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS," "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas," "OTHER INFORMATION - Continuing Disclosure of Information" (except under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed) and "OTHER INFORMATION - Legal Matters" (except for the last two sentences of the second paragraph thereof, as to which no opinion is expressed), 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 Locke Lord LLP, Austin, Texas, Counsel to the Underwriter.

**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 obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB through its Electronic Municipal Market Access ("EMMA") system, when it will be available to the general public, free of charge at [www.emma.msrb.com](http://www.emma.msrb.com).

**Annual Reports.** The District will file certain updated financial information and operating data with the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement 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 in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

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 EMMA Internet website or filed with the United States Securities and Exchange Commission (the "SEC"); as permitted by SEC Rule 15c2-12 (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 by the required time and 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 D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

**Notice of Certain Events.** The District will 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 federal income tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. Neither the Bonds nor the Order makes any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund), or liquidity enhancement; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide 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. 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.

For these purposes, (A) 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, and (B) the District intends the words used in clauses (15) and (16) of the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

**Availability of Information.** The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.msrb.org](http://www.msrb.org).

**Limitations and Amendments.** The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its 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.

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

**FINANCIAL ADVISOR . . .** Tijerina Galvan Lawrence LLC 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. Tijerina Galvan Lawrence LLC, 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.

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

**UNDERWRITING . . .** The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering price to the public as shown on inside cover page of the official statement less an underwriting discount of \$25,721.16. 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 has reviewed the information in this official statement in accordance with, and as part of, their responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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

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

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**MISCELLANEOUS**

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

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.

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

The Order authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter. The Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.C. Section 240.15c2-12.

Cotulla Independent School District

ATTEST:  
Cotulla Independent School District

/s/ Deonicio Ramirez, Jr.  
President, Board of Trustees

/s/ Kim Hoff  
Secretary, Board of Trustees

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS**

Issue	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Unlimited Tax Refunding Bonds, Series 2010					
Term 2021	8/15/2021	5.000%	\$ 210,000	3/26/2021	100.00
Term 2023	8/15/2022	5.000%	220,000	3/26/2021	100.00
	8/15/2023	5.000%	230,000	3/26/2021	100.00
			\$ 660,000		
Unlimited Tax Refunding Bonds, Series 2012					
Serials	2/15/2022	3.000%	\$ 700,000	3/26/2021	100.00
	2/15/2023	3.000%	720,000	3/26/2021	100.00
	2/15/2024	3.000%	740,000	3/26/2021	100.00
	2/15/2025	3.500%	765,000	3/26/2021	100.00
	2/15/2026	3.500%	795,000	3/26/2021	100.00
			\$ 3,720,000		
<b><i>Total Bonds Refunded</i></b>			<b>\$ 4,380,000</b>		

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**APPENDIX A**

**GENERAL INFORMATION REGARDING THE DISTRICT**

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**LOCATION**

The District is a political subdivision located in La Salle County, Texas. The District is approximately 1,494 square miles in area and serves a population of approximately 8,185.

**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 three-year staggered terms with elections being held each year on the first Saturday in May. 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:

<u>Year</u>	<u>Average Daily Attendance</u>
2011-2012	1,105
2012-2013	1,165
2013-2014	1,211
2014-2015	1,227
2015-2016	1,238
2016-2017	1,248
2017-2018	1,243
2018-2019	1,218
2019-2020	1,181
2020-2021	1,266

Source: The Municipal Advisory Council of Texas

**EMPLOYMENT STATISTICS**

	<u>La Salle County</u>			<u>State of Texas</u>		
	<u>November 2020</u>	<u>November 2019</u>	<u>November 2018</u>	<u>November 2020</u>	<u>November 2019</u>	<u>November 2018</u>
Civilian Labor Force	4,208	4,302	4,571	14,204,927	14,209,425	13,918,085
Total Employment	3,929	4,185	4,473	13,075,334	13,729,113	13,434,696
Total Unemployment	279	117	98	1,129,593	480,312	483,389
Percentage Unemployment	6.6%	2.7%	2.1%	8.0%	3.4%	3.5%

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## **APPENDIX B**

### **COTULLA INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT**

For the Fiscal Year Ended August 31, 2020

The information contained in this Appendix consists of excerpts from the Cotulla Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2020, 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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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of School Trustees  
Cotulla Independent School District  
Cotulla, Texas

### **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 Cotulla Independent School District (the District), as of and for the year ended August 31, 2020, 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.

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## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2020, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information for the general fund, and the Teacher Retirement System pension and OPEB information, as listed 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 Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

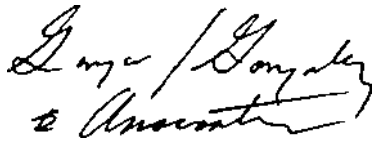
The combining statements, required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "George Gonzalez" with a stylized flourish underneath.

January 15, 2021

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COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

This section of Cotulla Independent School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance for the fiscal year ended August 31, 2020. Please read it in conjunction with the Independent Auditors' Report and the District's Basic Financial Statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The overall net position in the current year increased by \$5.5 million from the prior year. The net position at the end of the year is \$69.7 million.
- The general fund ended the year with a fund balance of \$33,086,906, an increase of \$3,551,202, from the previous year.
- The District is a Chapter 41 Texas School District. Chapter 41 of the Texas Education Code makes provisions for certain school districts to share their local tax revenue with other school districts. The District incurred expenditures of \$50.2 million in connection with Chapter 41 Recapture Payments to the Texas Education Agency.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

**REPORTING THE DISTRICT AS A WHOLE**

***Government-wide Financial Statements***

The Statement of Net Position and the Statement of Activities' primary purpose is to show whether the District is better or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, liabilities and deferred inflows at the end of the year, while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These statements apply the same basis of accounting as used by private sector companies.

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

All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and their respective changes. The District's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax basis and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we categorize the District's activities into the following groups:

**Governmental Activities** - All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District utilizes the following type funds to account for its activities:

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

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

**THE DISTRICT AS TRUSTEE**

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

The District is the trustee, or fiduciary, for money raised by student activities and tax collection activities for other entities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

*Cotulla Independent School District's Net Position*

Combined net position of the District was \$69,787,173 at August 31, 2020. See Table I below.

**TABLE 1**  
**COTULLA ISD**  
**NET POSITION**  
**(in thousands)**

	<b>Governmental Activities 2020</b>	<b>Governmental Activities 2019</b>
Current and Other Assets	\$ 53,610	\$ 58,399
Capital Assets	65,600	58,009
<b>TOTAL ASSETS</b>	<b>119,210</b>	<b>116,408</b>
Deferred Outflows of Resources	4,863	5,310
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>4,863</b>	<b>5,310</b>
Long-Term Liabilities	\$ 26,860	\$ 31,156
Other Liabilities	22,466	22,621
<b>TOTAL LIABILITIES</b>	<b>49,326</b>	<b>53,777</b>
Deferred Inflows of Resources	4,960	3,663
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,960</b>	<b>3,663</b>
<b>Net Position:</b>		
Net Investment in		
Capital Assets	49,151	46,277
Restricted	2,564	1,775
Unrestricted	18,072	16,225
<b>TOTAL NET POSITION</b>	<b>\$ 69,787</b>	<b>\$ 64,277</b>

COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

Combined operating revenues of the District were \$80,712,640 and combined operating expenses were \$75,203,511 at August 31, 2020. See Table II below.

**TABLE II**  
**COTULLA ISD**  
**CHANGE IN NET POSITION**  
**(in thousands)**

	<b>Governmental Activities 2020</b>	<b>Governmental Activities 2019</b>
Revenues:		
Program Revenues:		
Charges for Services	\$ 594	\$ 766
Operating Grants and Contributions	3,360	3,054
General Revenues:		
Maintenance and Operation Taxes	66,305	49,898
Debt Services Taxes	5,042	9,408
Grants and Contributions not Restricted to Specific Functions	3,436	1,175
Investment Earnings	1,168	1,777
Miscellaneous	807	1,215
<b>TOTAL REVENUE</b>	<b>80,712</b>	<b>67,293</b>
Expenses:		
Instruction, Curriculum and Media Services	13,020	11,011
Instructional and School Leadership	1,177	1,064
Student Support Services	1,481	1,421
Child Nutrition	1,125	1,206
Co-Curricular Activities	1,319	1,446
General Administration	1,139	1,003
Plant Maintenance, Security and Data Processing	3,063	3,055
Community Services	480	464
Debt Services	875	473
Intergovernmental Charges	51,524	38,527
<b>TOTAL EXPENSES</b>	<b>75,203</b>	<b>59,670</b>
Change in Net Position	5,509	7,615
Net Position, Beginning of Year	64,278	56,662
<b>Net Position, End of Year</b>	<b>\$ 69,787</b>	<b>\$ 64,277</b>

COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

The District's total revenues were \$80,712,640. A significant portion, 88.4% (which is \$71,346,991), of the District's revenues came from property taxes, 4.9% (which is \$3,955,147) came from program revenues, and 6.7% (which is \$5,410,502) of revenues came from state aid, interest and miscellaneous revenues. The total cost of all programs and services was \$75,203,511; 24.1% of these costs were for instructional and student services, 66.8% were intergovernmental charges related to Chapter 41 Recapture payments to TEA and other governmental charges.

***The District's Funds***

As the District completed the year, its governmental funds reported a combined fund balance of \$44,927,454 which is \$5,255,761 less than last year's total of \$50,183,215.

***General Fund Budgetary Highlights***

Over the course of the year, the Board of Trustees amended the District's budget. These budget amendments are categorized into three classifications: (1) increase to the fund balance; (2) decrease to the fund balance; and (3) no change to the fund balance.

The appropriations in the final amended budget increased by \$3,084,901 from the original budget.

Actual revenue was more than the final amended budget amount in the General Fund by \$1,585,731.

***Capital Asset and Debt Administration***

Capital Assets

As of August 31, 2020, the District's capital assets totaled \$65,600,095 (net of depreciation). Refer to Table III below for a summary of the District's capital assets. The major construction projects currently in progress is the new elementary school.

Additional information on the District's capital assets can be found in Section III, Note G of the notes to the financial statements.

**TABLE III  
COTULLA ISD  
NET CAPITAL ASSETS  
(in thousands)**

	<b>Governmental Activities 2020</b>	<b>Governmental Activities 2019</b>
Land	\$ 2,330	\$ 2,330
Construction in Progress	14,628	5,500
Building and Improvements	60,835	60,835
Furniture and Equipment	6,962	6,947
<b>Total at Historical Costs</b>	<b>84,755</b>	<b>75,612</b>
Accumulated Depreciation	(19,155)	(17,604)
<b>Net Capital Assets</b>	<b>\$ 65,600</b>	<b>\$ 58,008</b>



COTULLA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED

Debt

At year-end, the District had \$27.9 million in long term principal debt outstanding versus \$31.7 million last year. The decrease in the long-term debt of \$3,745,000 was due to the scheduled loan payments and bond payments as well as no issuance of new debt in the current year. The District's general obligation bond rating remained the same at AAA. Additional information on the District's Long-Term Debt can be found in Section III, Note H in the notes to the financial statements.

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

The District's revenues are expected to decrease in fiscal year 2020-2021 due to the Eagle Ford shale economic impact. The total tax rate for next year is \$1.07098. Of this amount, \$.97640 is for maintenance and operations and \$.09458 is for debt service.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report, or need additional information, contact the District's business office at 310 N. Main, Cotulla, Texas 78014.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

COTULLA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2020

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 38,394,182
1120 Current Investments	10,509,664
1220 Property Taxes - Delinquent	3,837,973
1230 Allowance for Uncollectible Taxes	(383,798)
1240 Due from Other Governments	701,054
1290 Other Receivables, Net	111,136
1300 Inventories	156,140
1410 Prepayments	269,543
1490 Other Current Assets	14,021
Capital Assets:	
1510 Land	2,330,170
1520 Buildings, Net	47,733,999
1530 Furniture and Equipment, Net	907,739
1580 Construction in Progress	14,628,187
1000 Total Assets	119,210,010
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	865,565
1705 Deferred Outflow Related to TRS Pension	3,101,573
1706 Deferred Outflow Related to TRS OPEB	896,118
1700 Total Deferred Outflows of Resources	4,863,256
<b>LIABILITIES</b>	
2110 Accounts Payable	3,762,142
2120 Other Liabilities	682,026
2140 Interest Payable	56,441
2150 Payroll Deductions and Withholdings	141,038
2160 Accrued Wages Payable	583,617
2180 Due to Other Governments	17,279
2200 Accrued Expenses	16,326
2300 Unearned Revenue	25,854
Noncurrent Liabilities:	
2501 Due Within One Year	3,860,000
2502 Due in More Than One Year	26,860,524
2540 Net Pension Liability (District's Share)	5,859,975
2545 Net OPEB Liability (District's Share)	7,460,403
2000 Total Liabilities	49,325,625
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	954,841
2606 Deferred Inflow Related to TRS OPEB	4,005,627
2600 Total Deferred Inflows of Resources	4,960,468
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	49,150,806
3820 Restricted for Federal and State Programs	321,650
3850 Restricted for Debt Service	2,242,478
3900 Unrestricted	18,072,239
3000 Total Net Position	\$ 69,787,173

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3	4	6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 12,518,699	\$ 451,385	\$ 1,385,335	\$ (10,681,979)
12 Instructional Resources and Media Services	235,743	-	20,726	(215,017)
13 Curriculum and Instructional Staff Development	265,616	-	74,150	(191,466)
21 Instructional Leadership	75,006	-	53,598	(21,408)
23 School Leadership	1,102,259	-	101,509	(1,000,750)
31 Guidance, Counseling, and Evaluation Services	552,817	-	67,427	(485,390)
33 Health Services	245,194	-	26,707	(218,487)
34 Student (Pupil) Transportation	683,154	-	43,767	(639,387)
35 Food Services	1,125,461	81,400	966,474	(77,587)
36 Extracurricular Activities	1,319,336	61,766	63,743	(1,193,827)
41 General Administration	1,138,664	-	64,049	(1,074,615)
51 Facilities Maintenance and Operations	2,418,816	-	164,886	(2,253,930)
52 Security and Monitoring Services	62,065	-	-	(62,065)
53 Data Processing Services	582,248	-	31,487	(550,761)
61 Community Services	479,901	-	296,738	(183,163)
72 Debt Service - Interest on Long-Term Debt	872,664	-	-	(872,664)
73 Debt Service - Bond Issuance Cost and Fees	2,250	-	-	(2,250)
91 Contracted Instructional Services Between Schools	50,219,141	-	-	(50,219,141)
93 Payments Related to Shared Services Arrangements	344,977	-	-	(344,977)
99 Other Intergovernmental Charges	959,500	-	-	(959,500)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 75,203,511</u>	<u>\$ 594,551</u>	<u>\$ 3,360,596</u>	<u>(71,248,364)</u>
Data Control Codes	<b>General Revenues:</b>			
MT	<b>Taxes</b>			
	Property Taxes, Levied for General Purposes			66,305,109
	Property Taxes, Levied for Debt Service			5,041,882
GC	Grants and Contributions not Restricted			3,436,217
IE	Investment Earnings			1,167,683
MI	Miscellaneous Local and Intermediate Revenue			806,602
TR	Total General Revenues			<u>76,757,493</u>
CN	Change in Net Position			5,509,129
NB	Net Position - Beginning			<u>64,278,044</u>
NE	Net Position - Ending			<u>\$ 69,787,173</u>

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

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## **FUND FINANCIAL STATEMENTS**

COTULLA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2020

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ 22,292,011	\$ 13,405,665	\$ 2,696,506	\$ 38,394,182
1120	Investments - Current	10,509,664	-	-	10,509,664
1220	Property Taxes - Delinquent	3,565,015	-	272,958	3,837,973
1230	Allowance for Uncollectible Taxes	(356,502)	-	(27,296)	(383,798)
1240	Due from Other Governments	472,965	-	228,089	701,054
1260	Due from Other Funds	5,903,159	3,955,025	33,468	9,891,652
1290	Other Receivables	91,328	15,009	4,799	111,136
1300	Inventories	140,571	-	15,569	156,140
1410	Prepayments	270,495	-	(952)	269,543
1490	Other Current Assets	14,021	-	-	14,021
1000	<b>Total Assets</b>	<b>\$ 42,902,727</b>	<b>\$ 17,375,699</b>	<b>\$ 3,223,141</b>	<b>\$ 63,501,567</b>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 2,605,044	\$ 1,125,025	\$ 32,076	\$ 3,762,145
2120	Other Liabilities	621,969	-	60,057	682,026
2150	Payroll Deductions and Withholdings Payable	126,275	-	14,763	141,038
2160	Accrued Wages Payable	524,163	-	59,454	583,617
2170	Due to Other Funds	2,717,410	7,028,688	145,554	9,891,652
2180	Due to Other Governments	1,983	-	15,296	17,279
2200	Accrued Expenditures	10,463	-	5,863	16,326
2300	Unearned Revenue	-	-	25,854	25,854
2000	<b>Total Liabilities</b>	<b>6,607,307</b>	<b>8,153,713</b>	<b>358,917</b>	<b>15,119,937</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2601	Unavailable Revenue - Property Taxes	3,208,514	-	245,662	3,454,176
2600	<b>Total Deferred Inflows of Resources</b>	<b>3,208,514</b>	<b>-</b>	<b>245,662</b>	<b>3,454,176</b>
<b>FUND BALANCES</b>					
<b>Nonspendable Fund Balance:</b>					
3410	Inventories	140,571	-	15,569	156,140
3430	Prepaid Items	270,495	-	-	270,495
<b>Restricted Fund Balance:</b>					
3450	Federal or State Funds Grant Restriction	-	-	321,649	321,649
3470	Capital Acquisition and Contractual Obligation	-	9,221,986	-	9,221,986
3480	Retirement of Long-Term Debt	-	-	2,252,060	2,252,060
<b>Assigned Fund Balance:</b>					
3590	Other Assigned Fund Balance	-	-	44,379	44,379
3600	Unassigned Fund Balance	32,675,840	-	(15,095)	32,660,745
3000	<b>Total Fund Balances</b>	<b>33,086,906</b>	<b>9,221,986</b>	<b>2,618,562</b>	<b>44,927,454</b>
4000	<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 42,902,727</b>	<b>\$ 17,375,699</b>	<b>\$ 3,223,141</b>	<b>\$ 63,501,567</b>

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2020

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	44,927,454
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$75,613,984 and the accumulated depreciation was (\$17,604,514). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. At the beginning of the year liabilities and deferred charges on refunding related to debt were comprised of: bonds payable (\$31,740,000), premium on (\$3,161,258), interest payable (\$51,541) and deferred charge on refunding \$1,022,388. The net effect is to increase net position.		24,079,059
2 Transactions related to current year capital outlays and long-term debt principal payments, and interest payable are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting as follows:		13,160,829
<ul style="list-style-type: none"> <li>● Acquisition of capital assets of \$9,141,816</li> <li>● Principal Payments on bonds payable of \$3,745,000</li> <li>● Amortization of loss on refund debt was (\$156,823)</li> <li>● Amortization of bond premium was \$435,736</li> <li>● Change in interest payable was (4,900)</li> </ul>		
3 At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$3,621,312, a Deferred Resource Inflow in the amount of (\$337,898) and a net pension liability in the amount of (\$6,165,983). The impact of this on Net Position is (\$2,882,569). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$830,674). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$3,713,243).		(3,713,243)
4 The District participates in the TRS-Care plan for retirees through TRS. The District's share of the TRS plan resulted in a net OPEB liability of (\$7,460,403), a deferred outflow of \$896,118 and a deferred inflow of (\$4,005,627). This resulted in a difference between the ending fund balance and the ending net position of (\$10,569,912).		(10,569,912)
5 The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,551,191)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. To recognize unavailable revenue from the current tax levy as revenues in the amount of \$2,795,169 and from prior year tax levies in the amount of \$659,008. The net effect of these reclassifications is to increase net position.		3,454,177
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>69,787,173</b>

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 68,411,235	\$ 184,098	\$ 5,357,293	\$ 73,952,626
5800 State Program Revenues	3,657,331	-	177,660	3,834,991
5900 Federal Program Revenues	646,141	-	1,697,600	2,343,741
5020 Total Revenues	<u>72,714,707</u>	<u>184,098</u>	<u>7,232,553</u>	<u>80,131,358</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	10,121,513	17,818	472,963	10,612,294
0012 Instructional Resources and Media Services	222,993	-	-	222,993
0013 Curriculum and Instructional Staff Development	192,182	-	54,330	246,512
0021 Instructional Leadership	12,262	-	53,598	65,860
0023 School Leadership	1,009,363	-	-	1,009,363
0031 Guidance, Counseling, and Evaluation Services	492,681	-	17,002	509,683
0033 Health Services	229,889	-	-	229,889
0034 Student (Pupil) Transportation	521,760	-	-	521,760
0035 Food Services	-	-	1,037,590	1,037,590
0036 Extracurricular Activities	996,072	-	33,336	1,029,408
0041 General Administration	1,032,519	-	-	1,032,519
0051 Facilities Maintenance and Operations	2,185,883	85,513	3,473	2,274,869
0052 Security and Monitoring Services	62,065	-	-	62,065
0053 Data Processing Services	417,384	120,626	25,000	563,010
0061 Community Services	143,319	-	281,183	424,502
Debt Service:				
0071 Principal on Long-Term Debt	-	-	3,745,000	3,745,000
0072 Interest on Long-Term Debt	-	-	1,146,675	1,146,675
0073 Bond Issuance Cost and Fees	-	-	2,250	2,250
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	9,127,259	-	9,127,259
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	50,219,141	-	-	50,219,141
0093 Payments to Fiscal Agent/Member Districts of SSA	344,977	-	-	344,977
0099 Other Intergovernmental Charges	959,500	-	-	959,500
6030 Total Expenditures	<u>69,163,503</u>	<u>9,351,216</u>	<u>6,872,400</u>	<u>85,387,119</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,551,204</u>	<u>(9,167,118)</u>	<u>360,153</u>	<u>(5,255,761)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	31,823	31,823
8911 Transfers Out (Use)	-	(31,823)	-	(31,823)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>(31,823)</u>	<u>31,823</u>	<u>-</u>
1200 Net Change in Fund Balances	3,551,204	(9,198,941)	391,976	(5,255,761)
0100 Fund Balance - September 1 (Beginning)	<u>29,535,702</u>	<u>18,420,927</u>	<u>2,226,586</u>	<u>50,183,215</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 33,086,906</u>	<u>\$ 9,221,986</u>	<u>\$ 2,618,562</u>	<u>\$ 44,927,454</u>

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (5,255,761)
Transactions related to current year capital outlays and long-term debt principal payments, amortization on bonds, changes in compensated absences, and interest payable are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting as follows:	13,160,829
<ul style="list-style-type: none"> <li>● Acquisition of capital assets \$9,141,816</li> <li>● Principal payments on bonds payable \$3,745,000</li> <li>● Change in interest payable was \$274,013</li> </ul>	
The net effect of removing the 2020 capital outlays and debt principle payments is to increase net position.	
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,551,191)
To recognize unavailable revenue from the current tax levy as revenues in the amount of \$659,008 and from prior tax levies in the amount of (\$695,810).	(36,802)
Various adjustments necessary to record the District's pension liability were as follows:	(830,671)
<ul style="list-style-type: none"> <li>● Contributions of \$449,090 made after the measurement date of August 31, 2019 were de-expended and recorded as deferred outflows of resources.</li> <li>● The District amortized its share of unrecognized deferred inflows and outflows of resources for TRS as a measurement date in the amount of (\$730,232)</li> <li>● The District's proportionate share of various expenses in the amount of (\$549,529) were used by TRS to calculate the District's ending net pension liability.</li> </ul>	
The net effect on the change in ending net position was a decrease in net position.	
Current year changes due to GASB 75 increased revenues in the amount of \$32,414 but also increased expenditures in the amount of \$9,689. The net effect on the change in the ending net position was an increase in the amount of \$22,725.	22,725
<b>Change in Net Position of Governmental Activities</b>	\$ 5,509,129

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2020

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 403,146
Other Receivables	2,502
Total Assets	<u>\$ 405,648</u>
LIABILITIES	
Accounts Payable	\$ 54,471
Due to Other Governments	91,504
Due to Student Groups	259,673
Total Liabilities	<u>\$ 405,648</u>

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Cotulla Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources and it complies with the requirements of the appropriate version of the Texas Education Agency's (TEA) *Financial Accountability System Resources Guide* (the Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The seven-member Board of Trustees (the Board) is elected by registered voters of the District. Because the Board is elected by the public; it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and has the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government wide statements. Eliminations have been made to minimize interfund activities. Governmental activities include programs supported primarily by property taxes, State foundation funds, grants and other intergovernmental revenues.

The net position is segregated into net investment in capital assets, restricted net position, and unrestricted net position. In the government-wide financial statements, net position represents the difference between assets and deferred outflows less liabilities and deferred inflows.

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. Indirect expense allocations that have been made in the funds have been reversed for 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. General revenues include taxes, investment earnings, grants and contributions not restricted, and miscellaneous revenue.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interfund activities between governmental funds appear as due to/due from other funds in the Governmental Funds Balance Sheet. Loans are reported as interfund receivables and payables and services provided deemed to be at market or near market rates, are treated as revenues and expenditures or expenses as appropriate and are not subject to elimination upon consolidation. All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Any interfund activities between governmental funds and fiduciary funds remain as due to/due from in the Government-Wide Statement of Net Position.

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category -governmental and fiduciary - are presented. 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 non-major funds.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus. The Agency funds utilize the accrual basis of accounting but do not have a measurement focus as they only report assets and liabilities. The government-wide financial statements 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 the timing of the related cash flows. Non-exchange 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 are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are both 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. Property taxes and interest are considered to be susceptible to accrual. 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.



COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. FUND ACCOUNTING**

Major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program, and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, debt service, and capital projects. The general fund is a budgeted fund.

Debt Service Fund: This fund accounts for resources accumulated and payments made for principal and interest payments of general obligation debt of governmental funds.

Capital Projects Fund: Accounts for the proceeds from long term debt financing to be used for authorized expenditures related to major capital acquisitions or construction activities.

Additionally, the District reports the following nonmajor funds:

Special Revenue Fund: These funds account for the resources entitled to, or designated for, specific purposes by the District or a grantor. Most federal and some state financial assistance is accounted for in a Special Revenue Fund.

Fiduciary Funds:

Agency Fund: These funds account for resources held for others in a custodial capacity by the District, and consists of funds that are the property of the students and taxes collected and held on behalf of other governmental entities.

**E. OTHER ACCOUNTING POLICIES**

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash in banks, investment pool deposits, and securities with maturities of less than three months from the date purchased.

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, vehicles and equipment, are reported in the governmental activities' column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Such assets, except for E-Rate acquisitions, are recorded at historical cost or estimated historical cost if purchased or constructed. E-Rate acquisitions are recorded at discounted cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Buildings, building improvements, furniture, equipment, and vehicles are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Building Improvements	50 years
Furniture & Equipment	5 years
Vehicles	10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures during the current year.

Inventory

Inventories of supplies and materials are accounted for under the consumption method. This method recognizes supplies and materials expenditures at the time they are requisitioned from the District's warehouse. Inventories available at the balance sheet date are recorded at cost while inventories of food commodities are recorded at market values supplied by the Texas Department of Agriculture with a charge to expenditures and revenues for an equal amount. Cost is determined principally by the average cost method. The supplies and materials inventories are available to all funds.

Data Control Codes

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Resource Guide. TEA requires school districts to display these codes in the financial statements in order to ensure accuracy in building a statewide database for policy development and funding plans.

Indirect Expenses

School districts are required to report all expenses by function. Indirect expenses for the District are reported as separate functions, i.e., general administration and data processing service (date control codes 41 and 53, respectively) and are not allocated to other functions.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Annual Leave

Full-time employees of the District accumulate vacation leave benefits in varying amounts. All employees are required to take their vacations by the anniversary of their contract start date. The District does not provide for accumulated vacation leave benefits since the amounts are not significant. Such expenditures are recognized in the year of payment.

Arbitrage Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at fields that exceeds the issuer's tax-exempt borrowing rates. The Treasury requires payments every five years for each issue. The District does not have a liability for arbitrage as of August 31, 2020.

Sick Leave

The District has adopted the State of Texas minimum sick leave program, which consists of five days per year of sick leave with no limit in accumulation and no restriction on transferability among districts for all full-time professional employees. The District has provided an additional four days per year with no local accumulation. Local sick leave is not paid upon termination or resignation.

Accounting System

In accordance with the TEA Resource Guide, the District has adopted and installed an accounting system, which exceeds the minimum requirements prescribed by the State Board of Education and is approved by the State Auditor. Specifically, the District's accounting system used the code and the code structure presented in the Accounting Code Section of the Financial Accounting and Reporting Module of the Resource Guide. Mandatory codes are utilized in the form provided in that section.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that can affect various report amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

The District's investments are generally reported at fair value in accordance with GASB Statement No. 72; accordingly, the District's investments in local government investment pools are reported at amortized cost and do not include any unrealized gains and losses.

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.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (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.

**F. FUND BALANCE**

In the fund financial statements, the District uses the following criteria when classifying fund balance amounts:

Nonspendable

Amounts not available for appropriation or legally earmarked for a specific use. Examples include inventories, prepaid items, and deferred expenditures. At August 31, 2020, the amount reported as nonspendable for inventory was \$140,571 in the General Fund and \$15,569 in the Special Revenue funds and the nonspendable for prepaid items in the General Fund was \$270,495.

Restricted

Amounts that have been legally separated for a specific purpose; such as, grants, capital acquisition from bond proceeds and long-term debt. At August 31, 2020, the amounts restricted for federal programs, capital acquisition and long-term debt was \$321,650, \$9,221,986 and \$2,252,060, respectively.

Committed

Amounts that require Board action to be used for a specific purpose; such as, construction improvements not funded by bond proceeds. Formal action to commit funds must occur prior to fiscal year end and can only be modified or removed by the same formal action. The District did not have any amounts in this category at August 31, 2020.

Assigned

Amounts that do not require Board approval but are intended to be used for a specific purpose, as determined by an official or body to which the Board has delegated authority; such as, the Superintendent. These amounts do not meet the criteria to be classified as restricted or committed. The assigned fund balance totaled \$44,379 at August 31, 2020.

Unassigned

Residual amount in the general fund that is available to finance operating expenditures. In other funds, this classification is used only to report a deficit balance resulting from overspending of amounts that had been restricted, committed, or assigned. At August 31, 2020, the unassigned amount in the General Fund was \$32,675,841 and \$(15,095) in the Non-Major Governmental Funds.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. SPENDING ORDER**

Fund balance amounts that are restricted, committed, or assigned are considered to have been spent when an expenditure is incurred for the respective purpose. If an expenditure is incurred that meets the criteria in more than one fund balance category, then the District considers that fund balance is relieved in the following order: restricted, committed, assigned, and then unassigned.

**H. RESTRICTED/UNRESTRICTED RESOURCES**

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenditures are incurred, there are both restricted and unrestricted resources available to finance the program. It is the District's policy to first apply cost-reimbursement grant (restricted) resources to such programs and then general revenues.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Trustees adopts an appropriated budget on a basis consistent with GAAP for the General Fund, Debt Service Fund and the Food Service Program. The budget for the Debt Service Fund is adopted by the fund type as a whole rather than for each individual debt service fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds.

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

1. Prior to August 20th the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.
3. Each Budget is controlled by the Superintendent at the fund and function level. Budgeted amounts are amended by the Board. All budget appropriations lapse at year end.

The budget amounts included in this report reflect amendments approved by the Board during the year through the final amended budget.

5. The adopted budget must be prominently displayed on the District's website until the 3<sup>rd</sup> anniversary of the date the budget was adopted.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

For the year ended August 31, 2020, expenditures exceeded appropriations for the General and Child Nutrition Program as follows:

	Final Amended Appropriations	Actual Expenditures	Variance (Excess)
General Fund:			
Contracted Instructional Services Between Schools	\$ 49,445,998	\$ 50,219,141	\$ (773,143)
Child Nutrition Program:			
Food Services	986,534	1,014,387	(27,853)
Facilities and Maintenance	1,851	3,473	(1,622)

**B. DEFICIT FUND BALANCE**

The ESC Child Nutrition Special Revenue fund reports a deficit fund balance of \$15,095.

**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

Deposits – Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third-party agent, in an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC Insurance.

The District’s deposits as of August 31, 2020 consist of the following:

	Cash and Cash Equivalents	Investments	Total
Deposits:			
Cash on Hand	\$ 623	\$ -	\$ 623
Demand Accounts	1,372,990	-	1,372,990
Investment Pools	37,020,569	-	37,020,569
Certificates of Deposit	-	526,414	526,414
Commercial Paper	-	9,983,250	9,983,250
Total	\$ 38,394,182	\$ 10,509,664	\$ 48,903,846

At August 31, 2020 the net carrying amount of the District’s cash on deposit was \$1,372,990 and the bank balance was \$1,892,180

Cash balances for the District were insured during the year.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

In addition, the following is disclosed regarding the coverage of combined balances on the date of the highest combined balance:

- a. Depositories: Stockmen's National Bank in Cotulla, Texas; and Frost National Bank in San Antonio, Texas.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$26,202,729 at Stockmen's National Bank and \$32,592,362 at Frost National Bank.
- c. The largest combined balances of cash, savings and time deposit accounts amounted to \$22,329,758 at Stockmen's National Bank and occurred in November 2019; and \$25,521,047 at Frost National Bank and occurred in May 2020.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

Investments – Government Code Chapter 2256, The Public Funds Investments Act (“Act”) 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. The 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 of the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

The Act determines the types of investments which are allowable for the District. These include with certain restrictions, (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) commercial paper, restricted to dual rated A1/P1 paper, (8) Mutual Funds, (9) Investment pools, (10) guaranteed investment contracts, (11) and common trust funds.

The Act also requires an annual independent audit of investment practices. Audit procedures in this area conducted as part of the audit of the basic financial statements disclosed that the District is in substantial compliance with the requirements of the Act and with local policies.

*Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by investing in investment pools which have no stated maturity date; therefore, the funds are always available to meet operational needs. Maturities of the District's investments in the investment pools are less than one year. In accordance with District policy, to reduce exposure to changes in interest rates that could adversely affect the values of investments, the District shall use final and weighted average maturity limits and diversification. The District shall monitor interest rate risk using weighted average maturity and specific identification.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

Cash on deposit in the Debt Service Fund is pledged to the repayment of the bonds.

*Credit Risk* - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In accordance with state law, investments in investment pools must be rated at least AAA.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Act, the District's investment policy, and Government Code Chapter 2257, *Collateral for Public Funds*, contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this Chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonable possible, stabilize at a \$1- net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ration between 0.995 and 1.005. The District's bank accounts and certificate of deposit funds are required to be deposited in accordance with the terms of the depository agreement. The depository bank places for safekeeping with the District's agent; bank approved pledged securities to protect the District's investments.

At August 31, 2020, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poors Rating
Texas Term – Investment Pool	\$ 10,053	1	AAAf
First Public – Investment Pool	37,010,516	1	AAA
Discount Commercial Paper	9,983,250	168	A1/P1
Certificates of Deposits	526,414	365	N/A
	<u>\$ 47,530,233</u>		

The First Public Investment Pool offers three diverse funds (Liquidity, Liquidity Plus and Liquidity Corporate) that give investors the opportunity to tailor their portfolio to their particular liquidity requirements and risk tolerance. Account managers assist in selecting the mix that will help the school district meet their short and long-term goals. These funds participate as investments authorized under the Public Funds Investment Act.



COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

The TexasTERM Local Government Investment Pool (the “Pool” or “TexasTERM”) was created by and for Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. The District’s investments are in the Texas Daily Portfolio. TexasDAILY is a money market portfolio with daily liquidity that is rated AAAM by Standard & Poor’s.

*Fair Value Investments:* The District measures and records its investments in accordance with GASB Statement No. 72 using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows: Level 1: Quoted prices for identical investments in active markets; Level 2: Observable inputs other than quoted market prices; and, Level 3: Unobservable inputs.

At August 31, 2020, the District’s fair value measurements for its investment were as follows: Discount Commercial Paper of \$9,983,250; valued using quoted market prices (Level 2 inputs).

In addition, the District has funds held in a 2a7-like external investment pool valued at amortized cost in the amount of \$37,020,569.

**B. PROPERTY TAXES**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2019-2020 fiscal years was \$6,796,850,520. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2020, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$.99 and \$.07580 per \$100 valuation, respectively, for a total of \$1.065800 per \$100 valuation.

Current tax collections for the current year were 100% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowance for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible taxes represents an estimate by the District of those personal property taxes receivable, which will be written off as uncollectible in the future.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

Property tax calendar information is as follows:

January 31	Taxes become a lien on property.
September 1 – August 31	Fiscal year covered by tax levies.
October 1	Taxes are levied.
October 1 – January 31	Collection period (current taxes)
January 31	Due date for payment without penalty for delinquent taxes
February 1 – June 30	Collection period (current delinquent taxes)
June 30	Due date for payment with penalty for delinquent taxes
July 1 and thereafter	Collection period (delinquent taxes). Upon payment, penalty and interest charges are added for delinquency.

**C. DUE TO/FROM OTHER FUNDS**

The composition of due to/from other funds as of August 31, 2020, reported in the governmental funds balance sheet are as follows:

	Due From Other Funds	Due To Other Funds
	<u>                    </u>	<u>                    </u>
General Fund:		
Capital Projects	\$ 5,757,605	\$ 2,717,410
Other Funds	145,554	-
	<u>5,903,159</u>	<u>2,717,410</u>
Capital Projects:		
General Fund	3,955,025	6,995,220
Other Funds	-	33,468
	<u>3,955,025</u>	<u>7,028,688</u>
Other Funds:		
General Fund	-	145,554
Capital Projects	33,468	-
	<u>\$ 9,891,652</u>	<u>\$ 9,891,652</u>

Receivables in the General Fund represent amounts due from the Capital Projects and Special Revenue Funds. Capital Project Funds are invested and pooled in the General Fund. Funds are transferred to the Capital Project Funds as needed. The receivable in the Other Funds is the result of bond issuance costs due from the Capital Projects Fund. The interfund balances are expected to be repaid within one year from the date of the financial statements.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. DUE TO OTHER GOVERNMENTS**

The amounts Due to Other Governments includes amounts due to the Texas Education Agency for excess payments paid to the District relating to grants and Chapter 41 cost of recapture. The amounts Due to Other Governments as of August 31, 2020 is as follows:

Entity	General Fund	Other Funds	Total
Texas Education Agency	\$ 1,983	\$ 15,296	\$ 17,279

**E. OTHER LIABILITIES**

Other liabilities of \$682,026 are comprised of tax over-payments to the District. The District plans to refund the overpayments in the subsequent year in accordance with the requirements of the Property Tax Code.

**F. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of local 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 State, Federal and Local Governments as of August 31, 2020 are summarized below.

	General Fund	Other Nonmajor Funds	Total
State Funds	\$ 434,515	\$ 35,650	\$ 470,165
Other Governments	38,450	192,439	230,889
Total	\$ 472,965	\$ 228,089	\$ 701,054

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**G. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2020, was as follows:

	Beginning Balances 9/1/19	Increases	Decreases	Ending Balances 8/31/20
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,330,170	\$ -	\$ -	\$ 2,330,170
Construction in Progress	5,500,930	9,127,257	-	14,628,187
Total capital assets not being depreciated	7,831,100	9,127,257	-	16,958,357
Capital assets being depreciated:				
Buildings and Improvements	60,835,160	-	-	60,835,160
Furniture, Equipment and Vehicles	6,947,724	14,559	-	6,962,283
Total capital assets being depreciated	67,782,884	14,559	-	67,797,443
Less accumulated depreciation:				
Building and Improvements	(11,816,832)	(1,284,329)	-	(13,101,161)
Furniture, Equipment and Vehicles	(5,787,682)	(266,862)	-	(6,054,544)
Total accumulated depreciation	(17,604,514)	(1,551,191)	-	(19,155,705)
Total capital assets being depreciated, net	50,178,370	(1,536,632)	-	48,641,738
Governmental activities capital assets, net	\$ 58,009,470	\$ 7,590,625	\$ -	\$ 65,600,095

Depreciation was charged to the governmental functions as follows:

	Totals
Instruction	\$ 1,065,053
Student (Pupil) Transportation	139,421
Food Service	6,076
Extracurricular Activities	234,452
General Administration	33,787
Facilities Maintenance and Operations	71,285
Date Processing Services	1,117
Total Depreciation Expense	\$ 1,551,191

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**H. LONG-TERM DEBT**

**Bonds Payable**

The District issues general bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. The bonds are supported by a pledge of the District's full faith and credit. Current principal and interest requirements are payable from future revenues of the debt service fund which consists principally of property taxes collected by the District and interest earnings. The District has not defaulted on any principal or interest payments. There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions.

A summary of changes in general obligation and refunding bonds for the year ended August 31, 2020 follows:

Description	Original Issue Amount	Interest Rate Payable	Amount Outstanding 09/01/19	Issued	Retired	Amount Outstanding 08/31/20	Amounts Due within One Year
Unlimited Tax School Building Bonds:							
Series 2010	2,475,000	2.00 - 5.00%	\$ 855,000	\$ -	\$ 195,000	\$ 660,000	\$ 210,000
Series 2017	22,675,000	2.00 - 5.00%	22,675,000	-	(2,495,000)	20,180,000	2,560,000
Unlimited Tax School Building and Refunding Bonds:							
Series 2012 CIB	7,605,000	2.00 - 5.00%	5,050,000	-	(655,000)	4,395,000	675,000
Series 2015	3,975,000	2.00 - 4.00%	3,160,000	-	(400,000)	2,760,000	415,000
Totals			\$ 31,740,000	\$ -	\$ 3,745,000	\$ 27,995,000	\$ 3,860,000

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2021	\$ 3,860,000	\$ 1,041,325	\$ 4,901,325
2022	3,995,000	915,200	4,910,200
2023	4,145,000	756,975	4,901,975
2024	4,065,000	593,750	4,658,750
2025	4,225,000	432,988	4,657,988
2026-2027	7,705,000	298,563	8,003,563
Total	\$ 27,995,000	\$ 4,038,801	\$ 32,033,801

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. CHANGES IN LONG TERM LIABILITIES**

Long-term liability activity for the year ended August 31, 2020, was as follows:

	Amount Outstanding 09/01/19	Additions	Deletions	Amount Outstanding 08/31/20	Due Within One Year
Bonds Payable	\$ 31,740,000	\$ -	\$ (3,745,000)	\$ 27,995,000	\$ 3,860,000
Unamortized Premiums	3,161,258	-	(453,734)	2,725,524	-
Total	<u>\$ 34,901,258</u>	<u>\$ -</u>	<u>\$ (4,180,734)</u>	<u>\$ 30,720,524</u>	<u>\$ 3,860,000</u>

**J. UNEARNED REVENUES**

Unearned Revenues as of August 31, 2020, was as follows:

<u>Nonmajor Funds</u>	
Grants and Other Programs	<u>\$ 25,853</u>
Total	<u>\$ 25,853</u>

**K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred Outflows of Resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

The District reports Deferred Resource Outflows and Deferred Resource Inflows in the Statement of Net Position as of August 31, 2020 as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District's Share of Resources related to TRS Pension	\$ 3,101,573	\$ 954,841
District's Share of Resources related to OPEB	896,118	4,005,627
Deferred Charge for Refunding of Debt	<u>865,565</u>	<u>-</u>
Reported by the District as of August 31, 2020	<u>\$ 4,863,256</u>	<u>\$ 4,960,468</u>

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

Deferred Inflows of Resources as of August 31, 2020, was as follows:

	General Fund	Non-Major Funds	Total
Property Taxes Receivable	\$ 3,565,015	\$ 272,958	\$ 3,837,973
Allowance for Uncollectible	(356,501)	(27,296)	(383,797)
Unavailable Revenues from Property Taxes	\$ 3,208,514	\$ 245,662	\$ 3,454,176

The unavailable revenue of \$3,454,176 relates to uncollected property taxes, less allowance for uncollectible amounts. These are shown as deferred inflows of resources in Exhibit C-1 in accordance with GASB Statement No. 65.

**L. DEFINED BENEFIT PENSION PLAN**

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

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

***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://trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting About TRS then Publications then Financial Reports or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

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

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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

***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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86<sup>th</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.



COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

	<u>Contributions</u>	
	2020	2019
Member (Employees)	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	6.8%
Employer (District)	7.5%	6.8%
Cotulla ISD 2020 – Employer Contributions (District)	\$ 449,090	
Cotulla ISD 2020 – Members Contributions (Employees)	\$ 917,305	
Cotulla ISD 2019 – NECE On-Behalf Contributions (State of Texas)	\$ 525,352	

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 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.

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

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

*Actuarial Assumptions.* The total pension liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019 and was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 2019	2.63%
Inflation	2.30%
Salary Increases ( <i>Including Inflation</i> )	3.05% to 9.05%
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four-year period ending August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

*Discount Rate.* A single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25%. The projection of cash flows used to determine the single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation of August 31, 2019 (see page 52 of the TRS CAFR) are summarized below:

Asset Class	FY 2019 Target Allocation* %	New Target Allocation** %	Long-Term Expected Geometric Real Rate of Return***
<b>Global Equity</b>			
USA	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	-	-
Private Equity	13.0%	14.0%	8.4%
<b>Stable Value</b>			
U.S. Treasuries****	11.0%	16.0%	3.1%
Stable Value Hedge Funds	4.0%	5.0%	4.5%
Absolute Return	-	-	-
<b>Real Return</b>			
Global Inflation Linked Bonds****	3.0%	-	-
Real Estate	14.0%	15.0%	8.5%
Energy, Natural Resources & Infrastructure	5.0%	6.0%	7.3%
Commodities	-	-	-
<b>Risk Parity</b>			
Risk Parity	5.0%	8.0%	5.8%/6.5%*****
<b>Leverage</b>			
Cash	1.0%	2.0%	2.5%
Asset Allocation Leverage	-	-6.0%	2.7%
<b>Expected Return</b>	100.00%	100.00%	7.23%

\* Target allocations are based on the Strategic Asset Allocation as of FY 2019

\*\* New allocations are based on the Strategic Asset Allocation to be implemented FY 2020

\*\*\* 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

\*\*\*\* New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

\*\*\*\*\* 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

**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 (7.25%) in measuring the Net Pension Liability.

1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
\$ 9,007,633	\$ 5,859,975	\$ 3,309,765

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* On August 31, 2020, the District reported a liability of \$5,859,975 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 5,859,975
State's proportionate share that is associated with the District	<u>7,802,755</u>
Total	<u>\$ 13,662,730</u>

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

August 31, 2019 the employer's portion of the collective net pension liability was .0112728404% which was an increase of .0000706041% from its proportion measured as of August 31, 2018.

**Changes Since the Prior Actuarial Valuation**

- The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas Legislature approved funding for a 13<sup>th</sup> check. All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

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, 2020, the District recognized pension expense of \$1,225,703 and revenue of \$1,225,703 for support provided by the State.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

On August 31, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 24,617	\$ 203,468
Changes in actuarial assumptions	1,818,052	751,305
Differences between projected and actual investment earnings	58,840	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	750,974	68
Contributions paid to TRS subsequent to the measurement	449,090	-
Total	<u>\$ 3,101,573</u>	<u>\$ 954,841</u>

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

Year Ending August 31,	Pension Expense Amount
2020	\$ 418,591
2021	351,504
2022	425,262
2023	402,332
2024	152,404
Thereafter	<u>(52,450)</u>
Total	<u>\$ 1,697,643</u>

**M. DEFINED OTHER POST EMPLOYMENT BENEFIT PLAN**

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

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

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**Benefits Provided.** TRS-Care provides a basic health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. 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 retirees are reflected in the following table:

	Medicare	Non-Medicare	
Retiree or Surviving Spouse	\$ 135	\$ 200	
Retiree and Spouse	529	689	
Retiree or Surviving Spouse and Children	468	408	
Retiree and Family	1,020	999	

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

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contributions</u>	
	2020	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%
Cotulla ISD 2020 – Employer Contributions (District)	\$ 114,927	
Cotulla ISD 2020 – Member Contributions (Employees)	\$ 77,437	
Cotulla ISD 2019 – NECE On-behalf Contributions (State of Texas)	\$ 148,763	

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When hiring a TRS retiree, employers are required to pay 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 \$73.6 million in fiscal year 2019.

The 86<sup>th</sup> Texas Legislature, House Bill 1 provided an additional \$230.7 million in one-time, supplemental funding for the FY 2019-2020 biennium to continue to support the program. TRS received the payments from September 1, 2019 thru August 31, 2020.

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

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

***Additional Actuarial Methods and Assumptions:***

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	2.63%
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Projected Salary Increases	3.05% to 9.05% including inflation
Healthcare Trend Rates	Initial medical trend rates of 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. Initial prescription drug trend rate of 10.25% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 13 years.
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc Post-Employment Benefit Changes	None

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**Discount Rate.** A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% 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.

**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 (2.63%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.63%)	Current Single Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
District’s proportionate share of the Net OPEB liability	\$ 9,007,099	\$ 7,460,403	\$ 6,250,419

**Liabilities, Expense, and Other Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.** On August 31, 2020, the District reported a liability of \$7,460,403 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s Proportionate Share of the Collective Net OPEB Liability	\$	7,460,403
State’s Proportionate Share that is Associated with the District		9,913,205
Total	\$	17,373,608

The Net OPEB Liability was measured as of August 31, 2018 rolled forward to August 31, 2019, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer’s proportion of the Net OPEB Liability was based on the employer’s contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

On August 31, 2020 the employer’s proportion of the collective Net OPEB Liability was .0157754462% compared to .0158896683% as of August 31, 2019.



COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

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	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District's proportionate share of the Net OPEB Liability	\$ 6,085,934	\$ 7,460,403	\$ 9,301,557

**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 (TOL) since the prior measurement period:

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$261,271 and revenue of \$261,271 for support provided by the State.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

On August 31, 2020, 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 365,996	\$ 1,220,816
Changes in actuarial assumptions	414,367	2,006,665
Differences between projected and actual investment earnings	805	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	23	778,146
Contributions paid to TRS subsequent to the measurement date	114,927	-
Total	\$ 896,118	\$ 4,005,627

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

Year Ending August 31,	OPEB Expense Amount
2020	\$ (521,068)
2021	(521,068)
2022	(521,329)
2023	(521,478)
2024	(521,439)
Thereafter	(618,053)
Total	\$ (3,224,435)

**Medicare Part D.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidiary payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Contributions made by the federal government on behalf of the District are recorded in the financial statements as both revenues and expenditures. These payments totaled \$57,360, \$40,859, and \$31,053 for fiscal years 2020, 2019, and 2018 respectively.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**N. HEALTH CARE COVERAGE**

Employees of the District are covered by a health insurance plan (the plan). The District pays premiums of up to \$331 per month per employee to the plan and employees may authorize payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

The total amount contributed by the District for employee healthcare is reflected as follows:

a. Total District contributions for healthcare 2019 – 2020	\$ 731,400
b. Subtract any non-medical expenditures	
Life Insurance	<u>3,197</u>
c. 2019 – 2020 Maintenance of Effort	<u>\$ 734,597</u>

**O. 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 the fiscal year, the District purchased commercial insurance to cover these risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**P. WORKERS' COMPENSATION**

In prior years, the District entered into an agreement with Workers' Compensation Solutions (WCS) to participate in a modified self-funded program. Under this program, WCS computes a premium by utilizing the District's payroll, by fiscal year, and other factors. The premium is used as the basis to determine the amount of the District's fixed administrative costs and maximum loss fund. During the year, the District paid \$43,623 in fixed administrative fees, plus claims fund deposit of 10% of the maximum loss fund for 2019-2020 of \$7,857. The District is also required to maintain a deposit with WCS equal to 10% of the maximum loss fund for each fiscal year. The District also paid \$78,566 into the maximum loss fund.

Governmental accounting standards require that liabilities be recognized based on reasonable estimates based on historical experience and/or actuarial methods. In prior years, the District had recognized the self-insurance fund liabilities based on the maximum loss contractual estimates. The maximum loss contractual estimates have not been exceeded in the last ten (10) years. The maximum loss fund represents the maximum estimated amount in workers' compensation claims for which the District is contractually liable. Based on the August 31, 2020 maximum fund loss analysis provided by WCS, the expected actuarial development liability is a negative \$53,871. In 2019 the expected actuarial liability was negative \$34,283.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**Q. LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources in the Governmental Fund Types consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Fund	Total
Property Taxes	\$ 66,554,476	\$ 5,200,150	\$ -	\$ -	\$ 71,754,626
Food Sales	-	-	-	50,537	50,537
Rent	160,722	-	-	-	160,722
Investment Income/Loss	980,490	-	184,098	3,095	1,167,683
Penalties, Interest and Other Tax Revenue	387,540	48,226	-	-	435,766
Athletic Activity	37,069	-	-	-	37,069
Other Revenues from Local Sources	195,105	-	-	30,587	225,692
Miscellaneous	95,834	-	-	24,696	120,530
	<u>\$ 68,411,236</u>	<u>\$ 5,248,376</u>	<u>\$ 184,098</u>	<u>\$ 108,915</u>	<u>\$ 73,952,625</u>

**R. GENERAL FUND FEDERAL REVENUE SOURCES**

The following federal revenue sources are included in the General Fund:

Program or Source	CFDA Number	Amount
School Health and Related Services (SHARS)	NA	\$ 617,041
E-Rate	NA	<u>29,100</u>
Total		<u>\$ 646,141</u>

**S. SHARED SERVICES AGREEMENTS**

The District is a member district in a Special Education Shared Services Arrangement (SSA), which pays for the director, diagnostician and shared teachers. The fiscal agent for the SSA is the Pearsall Independent School District and the other member district includes the Dilley Independent School District. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the funds provided in function 93 using Model 3 in the SSA section of the Resource Guide. The amount provided to the fiscal agent during the current year was \$344,977.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

The District also participated in an SSA for Special Education under Part B of the Individuals with Disabilities Education Act with two other school districts. The fiscal agent for the SSA, which is the Pearsall Independent School District, receives the program funds from the Texas Education Agency, retains a portion of the monies for the administrative services provided for the SSA and flows monies to the member districts to pay for allowable costs. The District has recorded all of the activity in accordance with the TEA Resource Guide.

In addition to the funds provided by the District as noted above, the fiscal agent also does all the purchasing for other expenditures and maintains all the supporting files. Thus, the District is not required to record the program revenues or expenditures in these financial statements. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Pearsall Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor has fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for all financial activities of the SSA.

Presented below are the revenues and expenditures paid for by the fiscal agent that are attributable to the District:

	<u>IDEA-Part B Formula/Preschool</u>
Revenues:	
Federal Revenue Distributed by TEA	\$ 85,337
Expenditures:	
Payroll Costs	<u>\$ 85,337</u>

Uvalde Regional Day School Program for the Deaf – The District participates in this SSA along with fifteen other school districts, including the Uvalde ISD who is the fiscal agent. During the year, the District did not make any payments to the Uvalde ISD.

**T. COMMITMENTS AND CONTINGENCIES**

Legal Proceedings

The District, from time to time, is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any material adverse effects on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

COTULLA INDEPENDENT SCHOOL DISTRICT  
Cotulla, Texas

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2020

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

State and Federal Programs

The District also participates in a number of federal financial assistance programs. Although these programs have been audited in accordance with the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organization*" through August 31, 2020, the programs are still subject to grantor financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Construction Commitments

At August 31, 2020, there were outstanding commitments in the amount of \$10,692,568 for facilities and construction contracts.

**U. RELATED ORGANIZATION**

The Cotulla ISD Foundation for Excellence in Education (the "Foundation"), a not for profit corporation which was organized to maintain, develop, and increase the facilities and services of the Cotulla Independent School District; broaden educational opportunities and services for students and staff; to solicit property both real and personal; to make contributions, gifts or grants to or for the benefit of the Cotulla Independent School District and to maintain an endowment account which may be used to support the Foundations purposes. The Foundation is considered a "related organization" of the District as defined by Governmental Accounting Standards Board Statement No. 14. The Foundation Board of Directors is comprised of three members with the officers of the foundation being appointed by the Board. No financial activity occurred in the current year. There are no asset and liabilities as of August 31, 2020.

**V. INCREMENTAL COSTS ASSOCIATED WITH CHAPTER 41**

In the current year the District reported expenditures of \$50,219,141 for incremental costs associated with Chapter 41 consist of Chapter 41 recapture payments to TEA and amounts payable. Under Texas State law (TEC Chapter 41), the State recaptured ad valorem taxes collected by the District. Recapture is a mechanism in state funding formulas that ensures that a District's property wealth per student does not exceed certain levels, known as equalized wealth levels. A District is subject to the provisions of Chapter 41 if its property wealth per WADA exceeds certain equalized wealth levels set in statute.

**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]

**\$4,240,000.00**

**COTULLA INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in La Salle County)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

WE HAVE ACTED as Bond Counsel for the COTULLA 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 THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., Dallas, Texas, as Escrow Agent (the "Escrow Agreement"), the certification by TIJERINA GALVAN LAWRENCE LLC, San Antonio, Texas, in its capacity as Financial Advisor to the District with respect to the adequacy of certain escrow funds to accomplish the refunding purposes of the Bonds (the "Sufficiency Certificate") 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) 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 (ii) 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 from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in

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

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accordance with the provisions of Chapter 1207, Texas Government Code, as amended. In rendering this opinion, we have relied upon the certifications contained in the Sufficiency Certificate 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, 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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