

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated January 15, 2021**

NEW ISSUE – BOOK-ENTRY-ONLY

Moody's (ENHANCED/UNENHANCED): – "Aaa" / "A2"  
PSF: Guaranteed  
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein.)

*Interest on the Bonds (defined below) is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Co-Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds (see "TAX MATTERS" herein).*



**\$2,835,000\***  
**CROCKETT INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Houston County)**  
**UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021**

**Dated Date: February 15, 2021**  
**Interest Accrues from Date of Delivery**

**Due: As shown on page -ii-**

The "Crockett Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2021" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the Crockett Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being 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 of the District (the "Board") on December 14, 2020. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate together are referred to herein as the "Order"). The Pricing Certificate is expected to be executed by an authorized District official on January 21, 2021\*, which will complete the sale of the Bonds. See "THE BONDS – Authority for Issuance" herein.

Interest on the Bonds will accrue from the Date of the Delivery (as defined below) of the Bonds, will be payable until stated maturity or prior redemption on February 15 and August 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 Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in multiples of \$5,000 of the principal amount (with respect to the Bonds) or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially BOKE, NA, Dallas, Texas to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's currently outstanding unlimited ad valorem tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for professional services related to the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" herein.

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

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**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,  
CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein**

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*The Bonds are offered for delivery when, as, and if issued and received by the initial purchaser named below (the "Underwriter") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Haynes & Boone, LLP, Houston, Texas, and Powell Law Group, LLP (formerly Powell, Youngblood & Taylor, LLP), Austin, Texas, Co-Bond Counsel. See "LEGAL MATTERS"; "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINION" hereto. Certain matters will be passed upon for the Underwriter by its counsel, Kassahn & Ortiz, P.C., San Antonio, Texas ("Underwriter's Counsel"). It is expected that the Bonds will be available for delivery through the services of DTC on or about February 22, 2021 (the "Date of Delivery").*

**RAMIREZ & Co., INC.**

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\* Preliminary, subject to change.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND  
REDEMPTION PROVISIONS\***

**\$2,835,000\***

**CROCKETT INDEPENDENT SCHOOL DISTRICT  
(A political subdivision of the State of Texas located in Houston County)  
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021**

**CUSIP NO. PREFIX 227021(\*\*)**

<b>Stated Maturity (August 15)</b>	<b>Principal Amount (\$)*</b>	<b>Interest Rate (%)</b>	<b>Initial Yield (%)</b>	<b>CUSIP No. Suffix(**)</b>
2021	40,000			
2022	75,000			
2023	75,000			
2024	75,000			
2025	75,000			
2026	75,000			
2027	275,000			
2028	290,000			
2029	285,000			
2030	310,000			
2031	295,000			
2032	320,000			
2033	315,000			
2034	330,000			

(Interest to accrue from the Date of Delivery of the Bonds)

The District reserves the option to redeem the Bonds maturing on and after August 15, 2030\* in whole or in part before their respective scheduled maturity dates, in multiples of \$5,000 of the principal amount or any integral multiple thereof, on February 15, 2030\*, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If two or more Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

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\* Preliminary, subject to change.

\*\* 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. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CROCKETT INDEPENDENT SCHOOL DISTRICT**  
**1400 West Austin Street**  
**Crockett, Texas 75835**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Dr. John Garner	President	May 2023
Roy Johnson	Vice President	May 2021
Karen Norman	Secretary	May 2021
Ansel Bradshaw	Trustee	May 2022
Stephen Tuggle	Trustee	May 2023
Josh Crabtree	Trustee	May 2022
Vacant	Trustee	May 2021

**ADMINISTRATION – FINANCE CONNECTED**

<u>Name</u>	<u>Position</u>
John Emerich	Superintendent of Schools
Tamra Scroggins	Business Manager

**CONSULTANTS AND ADVISORS**

Haynes & Boone, LLP, Houston, Texas	Co-Bond Counsel
Powell Law Group, LLP, Austin, Texas	Co-Bond Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Axley & Rode, LLP, Lufkin, Texas	Certified Public Accountants

**For Additional Information Contact:**

John Emerich  
Crockett Independent School District  
1400 West Austin Street  
Crockett, Texas 75835  
(936) 544-2125  
[john.emerich@crockettisd.net](mailto:john.emerich@crockettisd.net)

Lucas Janda  
Live Oak Public Finance, LLC  
1515 S. Capital of Texas Hwy., Suite 206  
Austin, Texas 78746  
(512) 799-2619  
[ljanda@liveoakpf.com](mailto:ljanda@liveoakpf.com)

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources that are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter.

The information and expressions of opinion 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 information or opinions set forth herein after the date of this Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

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

The Financial Advisor provided the following sentence for inclusion in this Official Statement. The Financial Advisor reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and 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.

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 FOR THE PURCHASE THEREOF.

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

None of the District, the Financial Advisor, or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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

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

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

## OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

<b>THE DISTRICT .....</b>	The Crockett Independent School District (the "District") is a political subdivision located in Houston County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered three-year terms with elections being held in May of every other year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District.
<b>THE BONDS .....</b>	The Crockett Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2021 (the "Bonds") are being issued as current interest bonds. The Bonds are being issued in the principal amounts and mature on the dates set forth on page - ii - hereof. The Bonds bear interest from the Date of Delivery (identified below), at the rates per annum set forth on page - ii - hereof, which interest is payable each February 15 and August 15, commencing August 15, 2021, until maturity or prior redemption. See "THE BONDS—General Description" herein.
<b>AUTHORITY FOR ISSUANCE</b>	The Bonds are being 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 on December 14, 2020. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate together are referred to herein as the "Order"). The Pricing Certificate is expected to be executed by an authorized District official on January 21, 2021*, which will complete the sale of the Bonds. See "THE BONDS – Authority for Issuance" herein.
<b>DATED DATE .....</b>	February 15, 2021.
<b>REDEMPTION .....</b>	The District reserves the option to redeem the Bonds maturing on and after August 15, 2030* in whole or in part before their respective scheduled maturity dates, in multiples of \$5,000 of the principal amount or any integral multiple thereof, on February 15, 2030*, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If two or more Bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.
<b>SECURITY FOR THE BONDS</b>	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
<b>TAX MATTERS .....</b>	Interest on the Bonds is not excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein.
<b>PERMANENT SCHOOL FUND GUARANTEE .....</b>	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
<b>PAYING AGENT/REGISTRAR</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
<b>MUNICIPAL BOND RATING</b>	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, Moody's has assigned its underlying, unenhanced rating of "A2" to the District's ad valorem tax-supported indebtedness, including the Bonds.
<b>FUTURE BOND ISSUES .....</b>	The District has no authorized but unissued ad valorem tax bonds. However, the District may incur other financial obligations payable from its collection of ad valorem taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance and operations taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance and operations taxes.
<b>PAYMENT RECORD .....</b>	The District has never defaulted on the payment of its bond indebtedness.
<b>DELIVERY .....</b>	When issued, anticipated to occur on or about February 22, 2021 (the "Date of Delivery").
<b>LEGALITY .....</b>	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Haynes & Boone, LLP, Houston, Texas, and Powell Law Group, LLP (formerly Powell, Youngblood & Taylor, LLP), Austin, Texas, Co-Bond Counsel. See "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINION" herein.

## **PRELIMINARY OFFICIAL STATEMENT**

relating to

**\$2,835,000\***

### **CROCKETT INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Houston County)  
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021**

## **INTRODUCTION**

This Official Statement of Crockett Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$2,835,000\* Unlimited Tax Refunding Bonds, Taxable Series 2021 (the "Bonds").

This Official Statement, which includes the cover page, the schedule, and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

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 the Escrow Agreement (defined below) pertaining to the Bonds will be filed by the Underwriter with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

## **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 the State of Texas ("the State"). 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 the State in response to the Pandemic, which disaster declaration was extended and is still in effect. 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, as hereinafter defined) 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, Executive Order GA-29 (July 2, 2020) that lists the requirements and exceptions for face coverings. Executive Order GA-31 (September 17, 2020) that requires hospitals in areas of high hospitalizations to suspend non-medically necessary surgeries and procedures and reserve 10% of beds for COVID-19 patients, and Executive Order GA-32 (effective October 14, 2020) that, among other things (i) continues certain restrictions on bars, limiting on-premises service at up to 50% of the total listed occupancy, (ii) increases maximum restaurant capacity from 50% to 75%, (iii) provides no

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\* Preliminary, subject to change.

occupancy limit for certain outdoor areas, events and establishments, subject to certain exceptions and (iv) requires face coverings over the nose and mouth in public or places open to the public when it is not feasible to maintain six feet of social distance, subject to certain exceptions. Executive Orders GA-29, GA-31 and GA-32 remain in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <http://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

On December 4, 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, administrative and extracurricular activities, school visits, 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 ("Average Daily Attendance") calculations requiring attendance to be taken. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" Herein. 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 two six weeks of Foundation School Program reporting. Specifically, if ADA counts during those two six weeks are more than 1% less than the first two 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 maintenance and operations if students do not take part in the instruction options made available by the District. The District has adopted an asynchronous method of instruction for the 2020-2021 school year.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend upon future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES" herein. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. See "APPENDIX A – Selected Financial Information of the District" hereto. Because the Bonds are secured by an unlimited ad valorem tax, 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 maintenance and operations expenses payable from such ad valorem taxes.

Additionally, State funding of District maintenance and operations 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" herein.



For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - Infectious Disease Outbreak" herein.

## **PLAN OF FINANCING**

### **Purpose**

The Bonds are being issued to (i) refund a portion of the District's currently outstanding unlimited ad valorem, tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for professional services related to the costs of issuance of the Bonds.

### **Refunded Obligations**

The principal and interest due on the Refunded Obligations are to be paid on the interest payment dates and redemption dates (as shown in the attached Schedule I) of such Refunded Obligations from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") between the District and BOKF, NA, Dallas, Texas (the "Escrow Agent"). The Order provides that a cash contribution by the District plus funds from the proceeds of the sale of the Bonds received from the initial purchaser of the Bonds listed on the cover page hereof (the "Underwriter"), will be deposited with the Escrow Agent in an amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and/or; (c) noncallable obligations of a state or an agency or a county, or a municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Public Finance Partners, LLC, Rockford, Minnesota will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay the principal of and interest on the Refunded Obligations on their respective redemption dates. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Upon deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with Texas law. It is the opinion of Co-Bond Counsel that as a result of such defeasance and in reliance upon the verification report of Public Finance Partners, LLC, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and that such Refunded Obligations will neither be deemed as outstanding obligations of the District payable from ad valorem taxes nor for the purpose of applying any limitation on the issuance of debt. The District will have no further responsibility or obligation with respect to amounts available in the Escrow Fund for the payment of the Refunded Obligations from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due on the Escrowed Securities. Upon defeasance of the Refunded Obligations, the payment of such Refunded Obligations will no longer be guaranteed by the corpus of the Permanent School Fund of the State of Texas.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds and the District's cash contribution, if any, will be applied approximately as follows:

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$ _____
Transfers from Prior Issue Debt Service Funds	_____
TOTAL SOURCES	\$ _____
<u>Uses of Funds:</u>	
Deposit to Escrow Fund	\$ _____
Underwriter's Discount	_____
Cost of Issuance	_____
Rounding Amount	_____
TOTAL USES	\$ _____

## THE BONDS

### General Description

The Bonds are being issued as current interest bonds, dated February 15, 2021 and maturing on August 15 in each of the years and in the amounts set forth on page -ii- hereof. Interest on the Bonds will accrue from the Date of Delivery (as defined herein), and such interest shall be payable on February 15 and August 15 in each year, commencing August 15, 2021, until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (as identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or prior redemption upon presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully-registered form in multiples of \$5,000 of the principal amount or any integral thereof for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., as 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.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which shall make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (as defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

### Authority for Issuance

The Bonds are being 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 of the District (the "Board") on December 14, 2020. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate together are referred to herein as the "Order"). The Pricing Certificate is expected to be executed by an authorized District official on January 21, 2021, which will complete the sale of the Bonds.

### Security for Payment

The Bonds are direct obligations of the District, payable from an annual 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**

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\* Preliminary, subject to change.

**District has received conditional approval from the Texas Education Agency for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of the State 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 received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Permanent School Fund of the State of Texas which guarantee will become automatically effective when the Attorney General of the State of Texas approves the issuance of the Bonds. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein. 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. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund of the State of Texas.

#### **Redemption Provisions of the Bonds**

The District reserves the option to redeem the Bonds maturing on and after August 15, 2030\*, in whole or in part before their respective scheduled maturity dates, in multiples of \$5,000 of the principal amount or any integral multiple thereof, on February 15, 2030\*, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. Additionally, if two or more serial Bonds of consecutive maturity are combined into one or more “term” Bonds (the “Term Bonds”) by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

#### **Selection of Bonds for Redemption**

If fewer than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be so redeemed.

#### **Notice of Redemption**

No fewer than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing of such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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\* Preliminary, subject to change.

## **Defeasance**

The Order provides that the District may discharge its obligations to the registered owners of any or all of the Bonds to pay the principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds' maturity or redemption or (ii) by depositing with any place for payment (e.g., paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state, an agency, a county, or a municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then-authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. Further, there is no assurance that the ratings for any Defeasance Securities will be maintained at any particular rating category. The foregoing obligations may be in book-entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of such redemption as provided in the Bond Order.

There is no assurance that current State law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities, or for any other Defeasance Security, will be maintained at any particular rating category.

After firm banking and financial arrangements for the defeasance of the Bonds have been made as described herein, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Bonds, 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 such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically 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 owner in any manner not detrimental to the interest 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, as applicable, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, or interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal, the redemption price, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

## **Default and 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, and so rests within 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) ("*Tooke*") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of Sections 271.151-160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). 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 that 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 another 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 Co-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.

### **Payment Record**

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

### **Legality**

The Bonds are offered for delivery when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and approval of certain legal matters by Haynes & Boone, LLP, Houston, Texas, and Powell Law Group, LLP (formerly Powell, Youngblood & Taylor, LLP), Austin, Texas, Co-Bond Counsel. See "LEGAL MATTERS" and "APPENDIX C — Form of Co-Bond Counsel's Opinion" herein.

### **Delivery**

When issued; anticipated to occur on or about February 22, 2021 (the "Date of Delivery").

## **Future Issues**

The District does not anticipate the issuance of additional ad valorem tax-supported debt in calendar year 2021, except potentially refunding bonds for debt service savings.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The Bonds will be issued in fully-registered form in multiples of \$5,000 of the principal amount (with respect to the Bonds) or integral multiples thereof for any one stated maturity. Principal of and interest on the Bonds will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

The District covenants that until the Bonds are paid it shall at all times maintain and provide a paying agent/registrar. In the Order, the District retains 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 so selected by the District must be a bank, 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. Upon any change in the Paying Agent/Registrar for the Bonds, the District shall promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

### **Record Date**

The record date ("Record Date") for determining the registered owner(s) entitled to receive a payment of interest on a Bond is the last business day of the month next preceding each interest payment date. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

### **Registration, Transferability and Exchange**

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond(s) 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 registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized

denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen, lost, or wrongfully taken, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been so destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

### **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

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

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

Redemption notices shall be sent to DTC. If fewer 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).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment 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. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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



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

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

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

*The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, nor is it to be construed as a representation of, the District, the Financial Advisor or the Underwriter.*

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

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

## **History and Purpose**

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

### **Valuation of the PSF and Guaranteed Bonds** **Permanent School Fund Valuations**

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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.

## **AD VALOREM TAX PROCEDURES**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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 county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (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 Houston County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District based on 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

### **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 fewer 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 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" herein.

## **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" herein.

For a discussion of how the various exemptions described above are applied by the District, see "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" herein.

## **District and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months

the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster” herein 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.

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

The Appraisal District has the responsibility for appraising the majority of the property in the District as well as other taxing units in Houston County. The Appraisal District is governed by a board of six directors appointed by voters of the governing bodies of various Houston County political subdivisions. The District’s taxes are collected by the Houston County Tax Assessor/Collector (the “Tax Assessor/Collector”).

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

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<b>Month</b>	<b>Cumulative Penalty</b>	<b>Cumulative Interest</b>	<b>Total</b>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

The Tax Assessor/Collector does collect an additional 20% penalty to defray legal costs incurred in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code after July 1. Interest continues to accrue after July 1 at the rate of 1% per month until paid.

The Tax Assessor/Collector does not allow split payments of taxes.

The Tax Assessor/Collector does not give discounts for early payment of taxes.

The District does not participate in a tax increment-financing ("TIF") zone.

The District does not tax non-business personal property.

The District taxes "freeport property" without exemption.

The District taxes "goods-in-transit" without exemption.

The District does not grant an additional local option exemption of up to 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The District does not grant a local homestead exemption of \$25,000 for taxpayers, and an additional exemption of \$10,000 for taxpayers who are at least 65 years of age or disabled.

The District has granted a tax abatement under a Texas Tax Code Chapter 313 Property Value Limitations agreement.

The District has entered into an Agreement for Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes with ETC Texas Pipeline, LTD authorized under Texas Tax Code Chapter 313, Texas Economic Development Act, as amended (a "Chapter 313 Agreement"), limiting the taxable appraised value for maintenance and operation purposes to twenty million dollars (\$20,000,000), beginning tax year 2016 and extending through tax year 2025.

## **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.*, 490 S.W. 3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated Article VII, Section 1 and Article VIII, Section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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



## Possible Effects of Changes in Law on District Bonds

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

### Overview

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

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

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum

compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable. 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 separates 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" herein; 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" herein.

### **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" herein), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

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

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

Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

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

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

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

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2019 Legislative Session, the State Legislature

appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

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

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

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

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

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue in excess of entitlement, 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, now the amount of excess revenues of a Chapter 49 district is determined 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 DISTRICT**

For the current 2020-2021 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

## **TAX RATE LIMITATIONS**

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

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to the approval of a proposition submitted to district voters under Section 45.003(d), Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. See "TAX RATE LIMITATIONS— Public Hearing and Voter-Approval Tax Rate" herein. The maximum voted M&O Tax rate for the District is \$1.50 per \$100 of taxable assessed valuation as approved by the voters at an election held for such purpose on November 11, 1975, under Article 2784e-1, Texas Revised Statutes Annotated (now codified as Section 45.003, Texas Education Code).

HB 3 established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by independent school districts, such as the District, for the 2020 and subsequent tax years:

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. 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 for an annual ad valorem tax, unlimited as to rate or amount for the support of school district bonded indebtedness. See "THE BONDS – Security for Payment" herein.

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Attorney General of the State of Texas that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and, therefore are 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 used neither State assistance, other than EDA or IFA allotment funding, nor projected property values to satisfy this threshold test.

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

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

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

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

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

Beginning with the 2020 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-

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

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

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

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

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

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

## **EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

The District contributes to the Teacher Retirement System of Texas (the “System”), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are



not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "DETAILED NOTES ON ALL FUNDS – IV herein. Other Information, C. Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "DETAILED NOTES ON ALL FUNDS – IV herein. Other Information, D Defined Other Postemployment Benefit Plan" in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the August 31, 2020 fiscal year, the District had a net pension liability of \$4,904,053.

See the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto for information related to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

## **INVESTMENT POLICIES**

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

### **Legal Investments**

Under State law, the District is authorized to make investments meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA"), which currently include (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 by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located,

for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFI that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits 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 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 branch office in the State 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, as amended, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC 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 secured by a combination of cash and obligations described in clause (1) or (13) in this paragraph or corporate bonds as described in clause (1) above and, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party 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 a stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "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 not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) 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 that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

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 "AAA<sup>m</sup>" 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services. 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.

Political subdivisions such as the District are authorized to implement 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 (12) through (14) 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.

### **Investment Policies**

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

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

### **Additional Provisions**

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the District that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local

government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

## **LEGAL MATTERS**

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of Haynes & Boone, LLP, Houston, Texas, and Powell Law Group, LLP (formerly Powell, Youngblood & Taylor, LLP), Austin, Texas, Co-Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of the Order. The form of Co-Bond Counsel's opinion are attached hereto as APPENDIX C.

Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. Except as noted below, Co-Bond Counsel did not take part in the preparation of this Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Co-Bond Counsel, such firm has reviewed the information appearing under the captions and subcaptions, "PLAN OF FINANCING – Refunded Obligations," "THE BONDS" (except for the third paragraph under the subcaption "Notice of Redemption," and subcaptions "Permanent School Fund Guarantee," "Default and Remedies," and "Payment Record," as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except the last sentence of the first paragraph thereof, as to which no opinion is expressed), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE" in the Official Statement and such firms are of the opinion that the information relating to the Bonds and the legal issues 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 provisions of the Order. The legal fees to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Kassahn & Ortiz, P.C., San Antonio, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

### **Litigation**

In the opinion of various officials of the District, except as disclosed in this Official Statement, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

## **TAX MATTERS**

### **Bonds**

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Co-Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds. The proposed form of opinion of Co-Bond Counsel is contained in APPENDIX C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Bonds that acquire their Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Bonds pursuant to this offering for the issue price that is applicable to such Bonds (*i.e.*, the price at which a substantial amount of the Bonds are sold to the public) and who will hold their Bonds as "capital assets" within the meaning of Section 1221 of the Code, as amended.

As used herein, "U.S. Holder" means a beneficial owner of a Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership, and disposition of the Bonds in light of their particular circumstances.

## **U.S. Holders**

*Interest.* Interest on the Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) by more than a de minimis amount, the difference may constitute original issue discount ("OID"). U.S. Holders of Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium using a constant yield method over the term of such Bond.

***Sale or Other Taxable Disposition of the Bonds.*** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Bond (generally, the purchase price paid by the U.S. Holder for the Bond, decreased by any amortized premium (and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder's holding period for the Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

***Defeasance of the Bonds.*** If the District defeases any Bond, the Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the Bond.

***Information Reporting and Backup Withholding.*** Payments on the Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code, as amended, and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code, as amended, or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code, as amended. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A Holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

## **Non-U.S. Holders**

***Interest.*** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act," payments of principal of, and interest on, any Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

***Disposition of the Bonds.*** Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District or a deemed retirement due to defeasance of the Bond) or other disposition of a Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

***U.S. Federal Estate Tax.*** A Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

***Information Reporting and Backup Withholding.*** Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payments of principal and interest on any Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Bond or a

financial institution holding the Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

#### **Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders**

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

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

Section 1201.041, Texas Government Code, as amended, provides that the Bonds are negotiable instruments and are investment securities governed by Chapter 8, Texas Business & Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER PERTINENT INFORMATION – Municipal Bond Rating” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies and savings and loan associations. The Bonds are also eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

#### **CONTINUING DISCLOSURE**

In the Order, the District has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement while 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 the timely notice of specified events to the MSRB via EMMA through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will 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 District of the general type included in this Official Statement in APPENDIX A, and in APPENDIX B attached hereto. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2021, and in a narrative, tabular form consistent with United States Securities and Exchange Commission Rule 15c2-12 (“Rule 15c2-12”) that the District and its advisors determine to accurately describe the District’s position. All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format

and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided hereunder may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement, other offering document, or financial report) available to the public on the MSRB's internet web site or filed with the SEC in such format and manner as permitted by Rule 15c2-12. 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 within twelve (12) months after any such fiscal year end, the District will provide to the MSRB unaudited financial statements within such 12-month period 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 B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

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

The District will also provide notices of certain events to the MSRB. The District will provide notice in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, as required by Rule 15c2-12: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under "Annual Reports."

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

The term "Financial Obligation" shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends to comply with the events in clauses (15) and (16), and the definition of "Financial Obligation," with reference to Rule 15c2-12, any other applicable federal securities laws, and the guidance provided by the Commission in Release No. 34-83885 dated August 20, 2018 (the "2018 Release"), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.



## **Availability of Information**

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

## **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its 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 with respect to a series of Bonds 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 Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 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 its continuing disclosure agreements if the SEC amends or repeals the applicable provisions 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 in the primary offering of the Bonds. If the District so amends its agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreements 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 in accordance with Rule 15c2-12.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by Live Oak Public Finance, LLC on behalf of the District relating to computation of forecasted receipts of principal and interest on the escrowed securities and the forecasted payments of principal and interest to redeem the Refunded Obligations were verified by Public Finance Partners, LLC. Such verification will be relied upon by Co-Bond Counsel in rendering its opinions with respect to defeasance of the Refunded Obligations. Such computations were based solely on assumptions and information supplied by Live Oak Public Finance, LLC on behalf of the District. Public Finance Partners, LLC, has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **OTHER PERTINENT INFORMATION**

### **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and 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 documents for further information. Reference is made to original documents in all respects.

## **Registration and Qualification of Bonds for Sale**

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

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

## **Municipal Bond Rating**

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, Moody's has assigned its underlying, unenhanced rating of "A2" to the District's ad valorem tax-supported indebtedness, including the Bonds.

An explanation of the significance of such rating may be obtained from Moody's. The ratings reflect only the views of such organization and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **Financial Advisor**

Live Oak Public Finance, LLC (the "Financial Advisor") is employed as the 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. Live Oak Public Finance, LLC, in its capacity as Financial Advisor, has relied on the opinion of Co-Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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 the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **Underwriting**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriter's discount of \$\_\_\_\_\_ (and no accrued interest). The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

The Underwriter and its 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 Underwriter and its 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 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.

The Underwriter and its affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments.

### **Forward-Looking Statements**

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

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

### **Information from External Sources**

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

### **Authorization of the Official Statement**

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

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

### **CROCKETT INDEPENDENT SCHOOL DISTRICT**

/s/ \_\_\_\_\_  
Pricing Officer



## SCHEDULE I

### REFUNDED OBLIGATIONS\*

Series	Principal Amount (\$)	Maturities	Interest Rates (%)	Redemption Date and Price
Crockett Independent School District Unlimited Tax Refunding Bonds Series 2013				
	200,000 <sup>(1)</sup>	8/15/2027	3.500	8/15/2023@100.00%
	220,000 <sup>(2)</sup>	8/15/2028	3.500	8/15/2023@100.00%
	220,000 <sup>(2)</sup>	8/15/2029	3.500	8/15/2023@100.00%
	245,000 <sup>(3)</sup>	8/15/2030	4.000	8/15/2023@100.00%
	240,000 <sup>(3)</sup>	8/15/2031	4.000	8/15/2023@100.00%
	265,000 <sup>(3)</sup>	8/15/2032	4.000	8/15/2023@100.00%
	265,000 <sup>(4)</sup>	8/15/2033	4.000	8/15/2023@100.00%
	285,000 <sup>(4)</sup>	8/15/2034	4.000	8/15/2023@100.00%
	285,000 <sup>(4)</sup>	8/15/2035	4.000	8/15/2023@100.00%
	305,000 <sup>(4)</sup>	8/15/2036	4.000	8/15/2023@100.00%
	305,000 <sup>(4)</sup>	8/15/2037	4.000	8/15/2023@100.00%

(1) Represents a Term Bond having a sinking fund final maturity in 2027

(2) Represents a Term Bond having a sinking fund payment due in 2028, and a final maturity in 2029

(3) Represents a Term Bond having sinking fund payments due in 2030, 2031, and a final maturity in 2032

(4) Represents a Term Bond having sinking fund payments due in 2033, 2034, 2035, 2036 and a final maturity in 2037

\* *Preliminary, subject to change.*

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

**Table 1**  
**Assessed Valuation <sup>(1)</sup>**

2020 Total Assessed Valuation	\$ 1,111,235,570
Less: Exemptions & Deductions	<u>(525,271,422)</u>
<b>2020 Net Taxable Assessed Valuation</b>	<b><u>585,964,148</u></b>
Unlimited Tax Bonds Outstanding	\$ 10,315,000
Plus: The Bonds <sup>(2)</sup>	2,595,000
Less: The Refunded Bonds <sup>(2)</sup>	<u>2,635,000</u>
Total Unlimited Tax Bonds	<b><u>\$ 10,275,000</u></b>
Less: Interest & Sinking Fund Balance <sup>(3)</sup>	<u>\$ 2,016,021</u>
Net General Obligation Debt	<b><u>\$ 8,258,979</u></b>
Ratio of Net G.O. Debt to Net Taxable Valuation	1.41%
Estimated District Population <sup>(4)</sup>	8,655
Per Capita Net Taxable Valuation	\$ 67,702
Per Capita Net GO Debt	\$ 954

<sup>(1)</sup> Source: Houston County Appraisal District, I&S Certification Report

<sup>(2)</sup> Preliminary, subject to change.

<sup>(3)</sup> Source: District's audited FYE 2020 financial statement

<sup>(4)</sup> Source: The Municipal Advisory Council of Texas

**Table 2**  
**Valuation and Debt History**

Fiscal Year Ended	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Assessed Valuation	Unlimited Tax Debt	Per Capita Tax Supported Debt	Ratio of Tax Supported Debt to Taxable Assessed Valuation
2017	8,836	\$ 446,540,630	\$ 50,537	\$ 12,140,000	\$ 1,374	2.72%
2018	8,631	439,686,310	50,943	11,690,000	1,354	2.66%
2019	8,572	453,700,670	52,928	11,280,000	1,316	2.49%
2020	7,710	476,326,343	61,780	10,795,000	1,400	2.27%
2021	8,655	585,964,148	67,702	10,275,000 <sup>(3)</sup>	1,187	1.75%

<sup>(1)</sup> Source: Municipal Advisory Council of Texas

<sup>(2)</sup> Source: Houston County Appraisal District, I&S Certification Report

<sup>(3)</sup> Preliminary, subject to change.

**Table 3**  
**Tax Levy and Collection History**

Fiscal Year Ended 8/31	Total Tax Rate <sup>(1)</sup>	Local Maintenance	Interest and Sinking Fund	Tax Levy <sup>(2)</sup>	% Current Collections	% Total Collections
2017	1.2500	1.0400	0.2100	5,496,076	94.33%	98.19%
2018	1.2500	1.0400	0.2100	5,243,503	95.67%	99.34%
2019	1.2500	1.0400	0.2100	5,962,472	95.08%	99.34%
2020	1.1800	0.9700	0.2100	5,758,672	93.18%	96.48%
2021	1.1617	0.9617	0.2000	6,807,146	In process of collection	

<sup>(1)</sup> Source: Municipal Advisory Council of Texas

<sup>(2)</sup> Source: District's audited financial statements

**Table 4**  
**Estimated Overlapping General Obligation Debt Statement <sup>(1)</sup>**

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Overlap %</u>	<u>Overlap</u>
City of Crockett	\$ 1,145,000	12/31/2020	100%	\$ 1,145,000
Houston County	10,645,000	12/31/2020	33.56%	3,572,462
Total Net Overlapping Debt				\$ 4,717,462
 <b>Crockett ISD</b>	 \$ 10,275,000	 2/22/2021	 100%	 <b>\$ 10,275,000</b>
Total Direct and Overlapping Debt				<u><u>\$ 14,992,462</u></u>
Ratio Direct and Overlapping Debt to Net Valuation				1.35%
Ratio Direct and Overlapping Debt to Actual Valuation				2.56%
Per Capita Direct and Overlapping Debt				\$ 1,732

<sup>(1)</sup> Source: Municipal Advisory Council of Texas

<sup>(2)</sup> Preliminary, subject to change

**Table 5**  
**Principal Taxpayers and their 2020 Taxable Assessed Valuations <sup>(1)</sup>**

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>% TAV</u>
ETC Texas Processing Ltd.	Oil & Gas Pipeline	\$20,000,000	3.41%
Lone Star NGL Pipeline LP	Oil & Gas Pipeline	\$12,692,430	2.17%
Midcoast Pipelines LP	Oil & Gas Pipeline	\$10,774,050	1.84%
Kinder Morgan Tejas Pipeline	Oil & Gas Pipeline	\$8,566,790	1.46%
Explorer Pipeline Co.	Oil & Gas Pipeline	\$7,853,890	1.34%
Oncor Electric Delivery Co. LLC	Electric Utility/Power Plant	\$7,542,360	1.29%
Eastern Shore Forest Prod. Inc.	Lumber Processing	\$6,052,710	1.03%
Union Pacific Railroad Co.	Railroad	\$5,706,300	0.97%
Walmart Real Estate Business Trust	Retail Store	\$4,259,880	0.73%
Wal-Mart Stores East Inc #236	Retail Store	\$3,982,020	0.68%
<b>Top 10 Totals:</b>		<b>\$87,430,430</b>	<b>14.92%</b>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas



**Table 6**  
**Unlimited Tax Debt**

Fiscal Year (8/31)	Outstanding Debt Service	Less: Refunded Bonds <sup>(1)</sup>	Plus: The Bonds <sup>(1)</sup>			Total Debt Service
			Principal	Interest	Total	
2021	\$ 892,325	\$ 103,200	\$ 80,000	\$ 26,626	\$ 106,626	\$ 895,751
2022	866,425	103,200	60,000	45,939	105,939	869,164
2023	870,825	103,200	60,000	45,435	105,435	873,060
2024	852,825	103,200	65,000	44,871	109,871	859,496
2025	873,925	103,200	65,000	44,195	109,195	879,920
2026	853,625	103,200	65,000	43,454	108,454	858,879
2027	853,325	103,200	65,000	42,583	107,583	857,708
2028	877,325	323,200	285,000	41,569	326,569	880,694
2029	874,750	315,500	285,000	36,838	321,838	881,088
2030	871,475	332,800	305,000	31,822	336,822	875,497
2031	861,275	318,000	295,000	26,149	321,149	864,424
2032	882,300	333,400	320,000	20,367	340,367	889,267
2033	871,700	322,800	315,000	13,775	328,775	877,675
2034	883,775	332,200	330,000	7,128	337,128	888,703
2035	869,350	320,800	-	-	-	548,550
2036	329,400	329,400	-	-	-	-
2037	317,200	317,200	-	-	-	-
<b>Totals:</b>	<b>\$ 13,701,825</b>	<b>\$ 3,967,700</b>	<b>\$ 2,595,000</b>	<b>\$ 470,745</b>	<b>\$ 3,065,745</b>	<b>\$ 12,799,870</b>

<sup>(1)</sup> Preliminary, subject to change.

**Table 7**  
**Limited Tax Debt**

Fiscal Year	Principal	Interest	Total
2021	\$ 145,000	\$ 16,649	\$ 161,649
2022	150,000	13,148	163,148
2023	145,000	9,647	154,647
2024	135,000	5,943	140,943
2025	135,000	1,981	136,981
<b>Totals</b>	<b>\$ 710,000</b>	<b>\$ 47,368</b>	<b>\$ 757,368</b>

**Table 8**  
**Authorized But Unissued Bonds**

As of February 22, 2021, the District has no authorized but unissued bonds.

**Table 9**  
**Other Obligations**

The annual requirements to amortize other obligations at year end were as follows:

<u>FYE 8/31</u>	<u>Amount <sup>(1)</sup></u>
2021	\$ 171,143
2022	94,312
2023	98,210
Total	<u>\$ 363,665</u>

(1) Source: District's audited financial statement; does not include Limited Tax Debt.

**Table 10**  
**Comparative Statement of General Fund Revenues and Expenditures <sup>(1)</sup>**

	Fiscal Years Ended August 31,				
	2020	2019	2018	2017	2016
<b>Revenues</b>					
Local and Intermediate Sources	\$ 4,955,666	\$ 5,147,671	\$ 5,083,743	\$ 5,563,428	\$ 4,516,021
State Program Revenues	8,929,981	7,777,756	7,407,118	7,667,183	7,351,620
Federal Program Revenues	248,694	317,875	340,243	237,128	220,414
<b>Total Revenues</b>	<b>\$ 14,134,341</b>	<b>\$ 13,243,302</b>	<b>\$ 12,831,104</b>	<b>\$ 13,467,739</b>	<b>\$ 12,088,055</b>
<b>Expenditures</b>					
Instruction	\$ 6,230,004	\$ 6,080,708	\$ 6,385,590	\$ 6,073,972	\$ 5,535,093
Instructional Resources and Media Services	15,299	13,064	918	13,641	19,194
Curriculum Development and Instructional Staff Development	10,444	1,531	2,344	994	194
Instructional Leadership	114,561	43,750	28,665	26,235	25,982
School Leadership	1,077,619	997,415	946,959	890,733	833,928
Guidance, Counseling and Evaluation Services	439,343	380,397	300,748	200,038	185,240
Health Services	135,880	115,380	117,510	114,263	110,810
Student Transportation	1,048,787	724,289	667,704	973,267	604,195
Cocurricular/Extracurricular Activities	761,669	631,770	629,311	594,940	605,651
General Administration	817,462	770,894	719,611	695,857	682,337
Plant Maintenance and Operations	2,073,624	1,815,421	1,782,847	1,532,885	1,497,978
Data Processing Services	27,109	271,126	24,680	11,240	218,890
Security and Monitoring	266,737	320	263,681	259,085	21,570
Debt Service	330,636	329,092	332,425	233,413	319,484
Capital Outlay	-	660,388	650,000	-	-
Other Intergovernmental Charges	159,409	190,911	165,908	190,037	168,432
Bond Issuance Costs and Fees	-	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 13,508,583</b>	<b>\$ 13,026,456</b>	<b>\$ 13,018,901</b>	<b>\$ 11,810,600</b>	<b>\$ 10,828,978</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 625,758	\$ 216,846	\$ (187,797)	\$ 1,657,139	\$ 1,259,077
Other Financing Sources:					
Other Resources	282,017	-	-	326,696	-
Other Uses	(561,066)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (279,049)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 326,696</b>	<b>\$ -</b>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures & Other Uses	\$ 346,709	\$ 216,846	\$ (187,797)	\$ 1,983,835	\$ 1,259,077
Fund Balance at Beginning of Year	\$ 6,050,164	\$ 5,862,979	\$ 6,050,776	\$ 4,066,941	\$ 2,807,864
Prior Period Adjustment	-	(29,661)	-	-	-
<b>Ending Fund Balance on August 31</b>	<b>\$ 6,396,873</b>	<b>\$ 6,050,164</b>	<b>\$ 5,862,979</b>	<b>\$ 6,050,776</b>	<b>\$ 4,066,941</b>

<sup>(1)</sup> Source: District's audited financial statements

**Table 11**  
**General Fund Balance Sheet <sup>(1)</sup>**

	<b>Fiscal Years Ending August 31,</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b><u>Assets:</u></b>					
Cash and Cash Equivalents	\$ 6,953,947	\$ 5,720,270	\$ 5,864,089	\$ 5,137,344	\$ 4,044,622
Taxes Receivable	981,705	851,705	906,811	878,635	825,080
Allowance for Uncollected Taxes	-	-	(45,000)	(44,000)	(33,000)
Due from Other Governments	241,438	707,390	377,118	1,020,480	466,172
Due from Other Funds	29,000	143,050	87,861	323,655	200,459
Other Receivables	44,433	-	-	40,912	-
Inventory	9,576	-	-	-	-
Prepaid Expense	90,763	-	-	-	-
<b>Total Assets</b>	<b>\$ 8,350,862</b>	<b>\$ 7,422,415</b>	<b>\$ 7,190,879</b>	<b>\$ 7,357,026</b>	<b>\$ 5,503,333</b>
<b><u>Liabilities</u></b>					
Accounts Payable	\$ 126,967	\$ 52,111	\$ 56,475	\$ 49,621	\$ 85,196
Payroll Deductions Payable	-	-	-	-	-
Accrued Wages Payable	332,088	432,435	409,614	421,994	524,841
Due to Other Funds	-	-	-	-	34,275
Due to Other Governments	481,229	-	-	-	-
Deferred Revenue	-	-	-	-	790,080
Unearned Revenue	-	887,705	861,811	734,635	-
<b>Total Liabilities</b>	<b>\$ 940,284</b>	<b>\$ 1,372,251</b>	<b>\$ 1,327,900</b>	<b>\$ 1,206,250</b>	<b>\$ 1,434,392</b>
<b><u>Fund Balances</u></b>					
Non-spendable:					
Inventories	\$ 9,576	\$ -	\$ -	\$ -	\$ -
Prepaid Items	90,763	-	-	-	-
Restricted					
Debt Service	-	-	-	-	-
Unassigned	6,296,534	6,050,164	5,862,979	6,050,776	4,066,941
<b>Total Fund Balances</b>	<b>\$ 6,396,873</b>	<b>\$ 6,050,164</b>	<b>\$ 5,862,979</b>	<b>\$ 6,050,776</b>	<b>\$ 4,066,941</b>
<b>Total Liabilities and Fund Balance:</b>	<b>\$ 8,350,862</b>	<b>\$ 7,422,415</b>	<b>\$ 7,190,879</b>	<b>\$ 7,357,026</b>	<b>\$ 5,501,333</b>

<sup>(1)</sup> Source: District's audited financial statements.

## **APPENDIX B**

### **AUDITED FINANCIAL STATEMENTS**

The information contained in this appendix consists of the Crockett Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2020.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
Crockett, Texas

ANNUAL FINANCIAL REPORT

For The Year Ended August 31, 2020

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CERTIFICATE OF BOARD

Crockett Independent School District

Name of School

Houston

County

113-901

Co. - Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and

☒ **Approved** --- ☐ **Disapproved**  
(Check One)

For the year ended August 31, 2020 at a meeting of the Board of Trustees of such school district on the 14<sup>th</sup> day of December, 2020.

  
Signature of Board Secretary

  
Signature of Board President

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

## FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Crockett Independent School District  
Crockett, 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 Crockett 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of 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 and the required supplementary 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and 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 supplementary information and schedule of required responses to Selected School FIRST Indicators, 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* (Uniform Guidance), and is also not a required part of the basic financial statements.

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

The schedule of required responses to Selected Schools FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

Lufkin, Texas  
December 14, 2020

  
CERTIFIED PUBLIC ACCOUNTANTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Crockett Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the District for the fiscal year ended August 31, 2020.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$5,476,112 (*net position*).
- The District's total net position increased by \$803,941.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,984,192, an increase of \$1,149,453 in comparison with the prior year of \$7,834,739.
- The District's total bonded debt decreased by \$530,000 due to scheduled debt payments.

### OVERVIEW OF THE FINANCIAL STATEMENT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, Evaluation Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees and Other Intergovernmental Charges.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds, which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation.

The District adopts an annual revenue and appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund and National School Breakfast and Lunch Program special revenue fund and debt service fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The fiduciary fund financial statements can be found as noted in the table of contents of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information, which includes schedules required by the Texas Education Agency. Such information can be found as noted in the table of contents of this report.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$5,476,112 at the close of the most recent fiscal year.

The largest portion of the District's net position \$9,697,602 reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Crockett Independent School District's Net Position

	Governmental Activities			
	2020 Amount	2019 Amount	Increase (Decrease) Amount	%
Current and other assets	\$ 11 232 294	\$ 9 461 204	\$ 1 771 090	18.7
Capital assets	21 074 071	21 443 131	(369 060)	(1.7)
TOTAL ASSETS	<u>32 306 365</u>	<u>30 904 335</u>	<u>1 402 030</u>	4.5
Deferred outflows	4 498 561	5 009 441	(510 880)	(10.2)
Noncurrent liabilities	23 059 660	24 916 784	(1 857 124)	(7.5)
Other liabilities	1 971 920	1 384 009	587 911	42.5
TOTAL LIABILITIES	<u>25 031 580</u>	<u>26 300 793</u>	<u>(1 269 213)</u>	(4.8)
Deferred inflows	6 297 234	4 940 812	1 356 422	27.5
Net Position:				
Net investment in capital assets	9 697 602	9 566 177	131 425	1.4
Restricted	2 587 319	1 784 575	802 744	45.0
Unrestricted	(6 808 809)	(6 678 581)	(130 228)	(2.0)
TOTAL NET POSITION	<u>\$ 5 476 112</u>	<u>\$ 4 672 171</u>	<u>\$ 803 941</u>	17.2

Net position restricted for debt service and grants totals (\$2,587,319 or 47.2 percent of net position).

## Governmental Activities

Governmental activities increased the District's net position by \$803,941 from current operations. Key elements of this change are as follows:

### Crockett Independent School District's Changes in Net Position

	Governmental Activities			
	2020 Amount	2019 Amount	Increase (Decrease)	
			Amount	%
Revenues:				
Program Revenues:				
Charges for services	\$ 200 633	\$ 245 161	\$ (44 528)	(18.2)
Operating grants and contributions	5 583 913	4 696 529	887 384	18.9
General Revenues:				
Property taxes, levied for general purpose	4 906 065	4 787 453	118 612	2.5
Property taxes, levied for debt service	1 159 824	1 110 261	49 563	4.5
Grants and contributions not restricted to specific programs	9 211 837	8 126 372	1 085 465	13.4
Investment earnings	63 960	58 101	5 859	10.1
Miscellaneous	31 505	257 411	(225 906)	(87.8)
TOTAL REVENUES	21 157 737	19 281 288	1 876 449	9.7
Expenses:				
Instruction	10 345 225	9 640 508	704 717	7.3
Instructional resources and media services	15 299	13 064	2 235	17.1
Curriculum and staff development	10 444	1 531	8 913	582.2
Instructional leadership	165 895	74 789	91 106	121.8
School leadership	1 269 338	1 106 256	163 082	14.7
Guidance, counseling and evaluation services	776 304	634 076	142 228	22.4
Health services	285 011	200 042	84 969	42.5
Student transportation	968 662	872 724	95 938	11.0
Food service	1 396 931	1 246 003	150 928	12.1
Extracurricular activities	993 491	928 240	65 251	7.0
General administration	1 034 236	993 053	41 183	4.1
Plant maintenance and operations	2 103 122	2 064 234	38 888	1.9
Security and monitoring services	69 818	7 160	62 658	875.1
Community services	4 100	-	4 100	100.0
Data processing services	291 865	286 698	5 167	1.8
Interest on long-term debt	464 646	407 542	57 104	14.0
Other intergovernmental charges	159 409	190 911	(31 502)	(16.5)
TOTAL EXPENSES	20 353 796	18 666 831	1 686 965	9.0
CHANGE IN NET POSITION	803 941	614 457	189 484	30.8
Net position, beginning	4 672 171	4 087 375	584 796	14.3
Prior period adjustment	-	(29 661)	29 661	100.0
NET POSITION, BEGINNING (RESTATED)	4 672 171	4 057 714	614 457	15.1
NET POSITION, ENDING	\$ 5 476 112	\$ 4 672 171	\$ 803 941	17.2

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$14,795,750) represent 69.9 percent of total revenues and property taxes \$6,065,889 represent 28.7 percent of total revenues. The remaining 1.4 percent is generated from investment earnings, charges for services and miscellaneous revenues.

The primary functional expense of the District is instruction \$10,345,225, which represents 50.8 percent of total expenses. Plant Maintenance and Operations \$2,103,122 represents 10.3 percent of total expenses. The remaining individual functional categories of expenses are less than 38.9 percent of total expenses.

## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,984,192, an increase of \$1,149,453 in comparison with the prior year, after the prior period adjustment.

The general fund is the primary operating fund of the District. At year-end, unassigned and total fund balance of the general fund was \$6,296,534. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 47.4 percent of total general fund expenditures. The fund balance of the general fund increased \$346,709 during the year, primarily due to expenditures less than budgets.

The debt service fund ended the year with a total fund balance of \$2,016,021, all of which is restricted for the payment of principal and interest on debt. The net increase in fund balance during the current year in the debt service fund was \$350,673 and was primarily due to the District's ability to cover increasing debt costs with tax revenues.

Governmental funds financial statements may be found by referring to the table of contents.

### General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The most significant differences between the original budget and the final amended budget of the general fund were increases due to COVID expenditures.

The actual budget exceeded expenditures that were approved by the Board.

### Capital Asset and Long-Term Liabilities

**Capital Assets.** The District's investment in capital assets for its governmental type activities as of August 31 amounts to \$21,074,071 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was (1.7) percent.

Major capital asset events during the current fiscal year included the following:

- \$343,324 - Buses
- \$18,919 - Various equipment
- \$173,135 - Various building repairs and additions

#### Crockett Independent School District's Capital Assets

	Governmental Activities			
	2020 Amount	2019 Amount	Increase (Decrease) Amount %	
Land and improvements	\$ 1 669 968	\$ 1 669 968	\$ -	-
Buildings and improvements	18 452 692	19 007 377	(554 685)	(2.9)
Furniture and equipment	951 411	765 786	185 625	24.2
TOTAL	<u>\$ 21 074 071</u>	<u>\$ 21 443 131</u>	<u>\$ (369 060)</u>	<u>(1.7)</u>

Additional information on the District's capital assets can be found in notes to the financial statements as noted in the table of contents of this report.

**Commitments.** At the end of the current fiscal year, the District had no commitments outstanding.

**Long-term Liabilities.** At the end of the current fiscal year, the District had the following long-term liabilities:

#### Crockett Independent School District's Long-Term Liabilities, Outstanding

	Governmental Activities			
	2020 Amount	2019 Amount	Increase (Decrease) Amount %	
General obligation bonds (net)	\$ 11 182 734	\$ 11 717 427	\$ (534 693)	(4.6)
Notes payable	1 061 469	1 081 954	(20 485)	(1.9)
Net pension liability	4 904 053	5 342 033	(437 980)	(8.2)
Net OPEB liability	6 747 758	7 557 922	(810 164)	(10.7)
TOTAL	<u>\$ 23 896 014</u>	<u>\$ 25 699 336</u>	<u>\$ (1 803 322)</u>	<u>(7.0)</u>

The District's bonded debt decreased by \$534,693 (4.6 percent) during the current fiscal year primarily due to scheduled debt payments. The District's general obligation debt is backed by the full faith and credit District and is further guaranteed by the Texas Permanent School Fund Guarantee Program. State statutes do not limit the tax rate or amount of local tax support of school district's bonded indebtedness. However, approval of the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term debt can be found in the notes to the financial statements as indicated in the table of contents of this report.

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

- The District maintains four campuses for instruction.
- Property values of the District are expected to increase for the 2020-2021 fiscal year.
- A maintenance and operations tax rate of \$0.9617 and a debt service tax rate of \$0.20, a total rate of \$1.1617 was adopted for 2020-2021. Thus there is a \$0.0183 decrease from the prior year.

All of these factors were considered in preparing the District's budget for the 2020-21 fiscal year.

**Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Crockett Independent School District, 1400 West Austin Street, Crockett, Texas 75835.

## BASIC FINANCIAL STATEMENTS



CROCKETT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
August 31, 2020

Exhibit A-1

1

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalents	\$ 9 623 720
1225	Property taxes receivable (net allowance of \$61,463)	1 167 798
1240	Due from other governments	296 004
1290	Other receivables	44 433
1310	Inventory	9 576
1410	Prepaid expense	90 763
	Capital Assets:	
1510	Land and improvements	1 669 968
1520	Buildings and improvements, net	18 452 692
1530	Furniture and equipment, net	951 411
1000	TOTAL ASSETS	<u>32 306 365</u>
	Deferred Outflows:	
1705	Deferred loss on refunding	685 181
1705	Deferred outflows - Pensions	2 996 038
1705	Deferred outflows - OPEB	817 342
1700	TOTAL DEFERRED OUTFLOWS	<u>4 498 561</u>
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>36 804 926</u>
	LIABILITIES	
2110	Accounts payable	234 987
2140	Interest payable	87 262
2160	Accrued wages payable	332 088
2180	Due to state	481 229
2501	Due within one year	836 354
	Noncurrent Liabilities:	
2502	Due in more than one year	10 540 115
2516	Premium on issuance of bonds	867 734
2540	Net pension liability	4 904 053
2545	Net OPEB liability	6 747 758
2000	TOTAL LIABILITIES	<u>25 031 580</u>
	Deferred Inflows:	
2605	Unearned revenues	32 000
2605	Deferred inflows - Pension	1 131 233
2605	Deferred inflows - OPEB	5 134 001
2600	TOTAL DEFERRED INFLOWS	<u>6 297 234</u>
	TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>31 328 814</u>
	NET POSITION	
3200	Net investment in capital assets	9 697 602
3820	Restricted for grants	571 298
3850	Restricted for debt service	2 016 021
3900	Unrestricted	(6 808 809)
3000	TOTAL NET POSITION	<u>\$ 5 476 112</u>

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2020

Exhibit B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1  EXPENSES	3 PROGRAM REVENUES		4 OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
			CHARGES FOR SERVICES			
						GOVERNMENTAL ACTIVITIES
	Governmental Activities:					
11	Instruction	\$ 10 345 225	\$ 50 000	\$	2 730 523	\$ (7 564 702)
12	Instructional resources and media services	15 299	-		-	(15 299)
13	Curriculum and staff development	10 444	-		-	(10 444)
21	Instructional leadership	165 895	-		48 153	(117 742)
23	School leadership	1 269 338	-		144 024	(1 125 314)
31	Guidance, counseling and evaluation services	776 304	-		410 563	(365 741)
33	Health services	285 011	-		112 030	(172 981)
34	Student transportation	968 662	-		65 610	(903 052)
35	Food service	1 396 931	33 824		1 713 289	350 182
36	Extracurricular activities	993 491	116 809		61 957	(814 725)
41	General administration	1 034 236	-		170 789	(863 447)
51	Plant maintenance and operations	2 103 122	-		60 560	(2 042 562)
52	Security and monitoring services	69 818	-		45 709	(24 109)
53	Data processing services	291 865	-		16 606	(275 259)
61	Community service	4 100	-		4 100	-
72	Debt service	464 646	-		-	(464 646)
99	Other governmental charges	159 409	-		-	(159 409)
TG	TOTAL GOVERNMENTAL ACTIVITIES	<u>20 353 796</u>	<u>200 633</u>		<u>5 583 913</u>	<u>(14 569 250)</u>
TP	TOTAL PRIMARY GOVERNMENT	\$ <u>20 353 796</u>	\$ <u>200 633</u>	\$	<u>5 583 913</u>	<u>(14 569 250)</u>
	General Revenues:					
MT	Property taxes, levied for general purposes					4 906 065
DT	Property taxes, levied for debt service					1 159 824
IE	Investment earnings					63 960
GC	Grants and contributions not restricted to specific programs					9 211 837
MI	Miscellaneous					31 505
TR	TOTAL GENERAL REVENUES					<u>15 373 191</u>
CN	CHANGE IN NET POSITION					<u>803 941</u>
NB	Net position - Beginning					<u>4 672 171</u>
NE	NET POSITION - ENDING					<u>\$ 5 476 112</u>

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
August 31, 2020

Exhibit C-1

DATA CONTROL CODES		10	50	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
		GENERAL FUND	DEBT SERVICE FUND		
	ASSETS				
1110	Cash and cash equivalents	\$ 6 953 947	\$ 2 013 915	\$ 655 858	\$ 9 623 720
1225	Taxes receivable (net)	981 705	186 093	-	1 167 798
1240	Due from other governments	241 438	2 106	52 460	296 004
1260	Due from other funds	29 000	-	-	29 000
1290	Other receivables	44 433	-	-	44 433
1310	Inventory	9 576	-	-	9 576
1410	Prepaid expense	90 763	-	-	90 763
1000	TOTAL ASSETS	<u>\$ 8 350 862</u>	<u>\$ 2 202 114</u>	<u>\$ 708 318</u>	<u>\$ 11 261 294</u>
	LIABILITIES				
2110	Accounts payable	\$ 126 967	\$ -	\$ 108 020	\$ 234 987
2160	Accrued wages payable	332 088	-	-	332 088
2170	Due to other funds	-	-	29 000	29 000
2180	Due to state	481 229	-	-	481 229
2000	TOTAL LIABILITIES	<u>940 284</u>	<u>-</u>	<u>137 020</u>	<u>1 077 304</u>
	DEFERRED INFLOWS				
2600	Unearned revenues	1 013 705	186 093	-	1 199 798
	TOTAL DEFERRED INFLOWS	<u>1 013 705</u>	<u>186 093</u>	<u>-</u>	<u>1 199 798</u>
	FUND BALANCES				
	Nonspendable Fund Balances:				
3410	Inventory	9 576	-	-	9 576
3430	Prepaid expense	90 763	-	-	90 763
	Restricted Fund Balance:				
3450	Food service	-	-	383 491	383 491
3480	Debt service	-	2 016 021	-	2 016 021
3490	Other restrictions of fund balance	-	-	187 807	187 807
3600	Unassigned	6 296 534	-	-	6 296 534
3000	TOTAL FUND BALANCE	<u>6 396 873</u>	<u>2 016 021</u>	<u>571 298</u>	<u>8 984 192</u>
4000	TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 8 350 862</u>	<u>\$ 2 202 114</u>	<u>\$ 708 318</u>	<u>\$ 11 261 294</u>

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

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

Exhibit C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)

\$ 8 984 192

Amounts Reported for Governmental Activities in the Statement of Net Position  
are Different Because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	21 074 071
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	1 167 798
Payables for bond and notes interest which are due in the current period are not reported in the funds.	(87 262)
Long-term liabilities, including bonds payable, notes payable, bond premiums, and net pension and OPEB liability are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(23 896 014)
Deferred charges on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds due to it is not a current financial resource available to pay for current expenditures.	685 181
Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.	2 996 038
Deferred inflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	(1 131 233)
Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then.	817 342
Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	<u>(5 134 001)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)	\$ <u>5 476 112</u>

The accompanying notes are an integral part of this statement.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2020

Exhibit C-2

DATA CONTROL CODES		10	50	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
		GENERAL FUND	DEBT SERVICE FUND		
	Revenues:				
5700	Local and intermediate sources	\$ 4 955 666	\$ 1 174 736	\$ 105 174	\$ 6 235 576
5800	State program revenues	8 929 981	33 162	255 060	9 218 203
5900	Federal program revenues	248 694	-	3 685 981	3 934 675
5020	TOTAL REVENUES	<u>14 134 341</u>	<u>1 207 898</u>	<u>4 046 215</u>	<u>19 388 454</u>
	Expenditures:				
	Current:				
0011	Instruction	6 230 004	-	2 221 148	8 451 152
0012	Instructional resources and media services	15 299	-	-	15 299
0013	Curriculum and staff development	10 444	-	-	10 444
0021	Instructional leadership	114 561	-	38 546	153 107
0023	School leadership	1 077 619	-	-	1 077 619
0031	Guidance, counseling and evaluation services	439 343	-	336 961	776 304
0033	Health services	135 880	-	-	135 880
0034	Student transportation	1 048 787	-	-	1 048 787
0035	Food services	-	-	1 374 354	1 374 354
0036	Cocurricular/extracurricular activities	761 669	-	69 976	831 645
0041	General administration	817 462	-	67 416	884 878
0051	Plant maintenance and operations	2 073 624	-	-	2 073 624
0052	Security and monitoring services	27 109	-	42 709	69 818
0053	Data processing services	266 737	-	-	266 737
0061	Community services	-	-	4 100	4 100
0071	Debt service	330 636	857 225	-	1 187 861
0081	Capital outlay	-	-	-	-
0099	Other governmental charges	159 409	-	-	159 409
6030	TOTAL EXPENDITURES	<u>13 508 583</u>	<u>857 225</u>	<u>4 155 210</u>	<u>18 521 018</u>
1100	EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>625 758</u>	<u>350 673</u>	<u>(108 995)</u>	<u>867 436</u>
	Other Financing Sources:				
7915	Transfer in	-	-	561 066	561 066
7914	Loan proceeds	282 017	-	-	282 017
8911	Transfer out	(561 066)	-	-	(561 066)
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>(279 049)</u>	<u>-</u>	<u>561 066</u>	<u>282 017</u>
1200	NET CHANGE IN FUND BALANCES	346 709	350 673	452 071	1 149 453
0100	Fund balances - Beginning	<u>6 050 164</u>	<u>1 665 348</u>	<u>119 227</u>	<u>7 834 739</u>
3000	FUND BALANCES - ENDING	<u>\$ 6 396 873</u>	<u>\$ 2 016 021</u>	<u>\$ 571 298</u>	<u>\$ 8 984 192</u>

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2020

Exhibit C-3

Total net change in fund balance governmental funds	\$ 1 149 453
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Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and disposals exceeded capital outlays in the period.	(369 060)
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Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.	126 411
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Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	500 485
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Issuance of long term debt is proceeds in the fund statements and a liability in the government wide statements.	(282 017)
--	-----------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts.	222 730
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The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	(780 945)
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The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	236 884
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>803 941</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
August 31, 2020

Exhibit E-1

DATA CONTROL CODES		829 PRIVATE-PURPOSE TRUST FUND SCHOLARSHIP FUND	865 AGENCY FUND STUDENT ACTIVITY
	ASSETS		
1110	Cash and cash equivalents	\$ 2 573	\$ 37 432
1120	Current investments	13 652	-
1000	TOTAL ASSETS	\$ <u>16 225</u>	\$ <u>37 432</u>
	LIABILITIES		
2190	Due to student groups	\$ -	\$ 37 432
2000	TOTAL LIABILITIES	-	\$ <u>37 432</u>
	NET POSITION		
3800	Held in trust	16 225	
3000	TOTAL NET POSITION	\$ <u>16 225</u>	

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Fiscal Year Ended August 31, 2020

Exhibit E-2

DATA CONTROL CODES		829 PRIVATE- PURPOSE TRUST FUND SCHOLARSHIP FUND
	Additions:	
5700	Other local revenue	\$ 17
5020	TOTAL ADDITIONS	<u>17</u>
	Deductions:	
6400	Administrative fee	-
6030	TOTAL DEDUCTIONS	<u>-</u>
1300	CHANGE IN NET POSITION	17
0100	Total net position - Beginning	<u>16 208</u>
3300	TOTAL NET POSITION - ENDING	\$ <u><u>16 225</u></u>

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



CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District). All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Crockett Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public, elementary, and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation - Fund Financial Statements

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 nonmajor funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of special revenue sources (other than those identified as a major fund) that are restricted or committed to expenditures for specific purposes.

The *private purpose trust fund* is used to account for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. Primarily, the funds received in trust are for scholarships that are to be awarded to current and former students for post-secondary education purposes.

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in the governmental activities.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to notes payable are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues in the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end.) All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and, bank demands or time deposits with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the District, except for some investment pools and non-negotiable certificates of deposit, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value. Non-negotiable certificates of deposits are reported at cost.

3. Inventories and Prepaid Items

The cost of such inventories is recorded as expenditures/expenses when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when purchased rather than when consumed.

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Building improvements	5-50
Furniture and equipment	5-15

5. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions to the pension and OPEB plans after the measurement date of each plan are recognized in the subsequent fiscal year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. Compensated Absences

- Vacation - The District does not have a liability for unpaid vacation at year end due to the District's policy does not allow a carryover of vacation not taken at August 31.
- Sick Leave - Accumulated sick leave lapses when employees leave the employment of the District and, upon separation from service, no monetary obligation exists.

7. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bonds or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow of assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statement a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance.)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision making authority. The board of trustees (the Board) is the highest level of decision making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by policy authorized the superintendent and business manager to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Pension

The fiduciary net position of the Teachers 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.

11. Other Post-Employment Benefits

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Data Control Codes

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and national school breakfast and lunch program special revenue fund. All other governmental funds adopt project-length budgets. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, 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.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2020, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following fund:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
NONE	N/A	N/A	N/A	N/A

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The District did not have any significant outstanding encumbrances at August 31, 2020.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash Deposits:

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments:

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Fully collateralized repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Securities lending program as permitted by Government Code 2256.0015; 5) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 6) Commercial paper if it has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 7) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission and have a dollar-weighted average stated maturity of 90 days or fewer; 8) No-load mutual funds which shall be registered with the Securities and Exchange Commission, have an average weighted maturity of less than two years, include investments that comply with the Public Funds Investment Act and are and are continuously rated not less than AAA by at least one NRSRO; 9) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 10) Public funds investment pools which meet the requirements of the Public Funds Investment Act.

The District's fiduciary fund's investment balance and weighted average maturity of such investment is as follows:

FIDUCIARY FUNDS' INVESTMENT TYPE	CURRENT INVESTMENTS	PERCENT OF TOTAL INVESTMENTS	WEIGHTED AVERAGE MATURITY (DAYS)	CREDIT RISK
Investment Measured at Cost:				
Non-negotiable certificates of deposit	\$ 13 652	\$ 100.0%	145	*
<b>TOTAL VALUE</b>	<b>\$ 13 652</b>	<b>\$ 100.0%</b>		

\*Certificate of Deposit is FDIC insured or collateralized

Non-negotiable certificates of deposit are measured at cost and are exempt from fair value reporting.

Credit Risk:

For fiscal year 2020, the District is not exposed to credit risk.

Investment Rate Risk:

Interest rate risk is the risk that changes in interest rates may adversely affect the value of investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair value by limiting the weighted average maturity of any internally created pool to no more than 180 days, and any other individual investment not to exceed one year from the time of purchase, unless specifically authorized by the Board of Trustees.

Concentration of Credit Risk:

The District's investment policy does not limit an investment in any one issuer.

Custodial Credit Risk - Deposits:

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2020, the District's deposits were not exposed to custodial credit risk because they were insured and collateralized with securities held by the District's agent and in the District's name.

Custodial Credit Risk - Investments:

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered in the District's name or the investments are held by the District or its agent.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED**

**B Interfund Receivables, Payables, and Transfers**

1. Receivables/Payables

The composition of interfund receivable/payable balances as of August 31, 2020 is as follows:

FUND	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General fund	\$ 29 000	\$ -
Nonmajor governmental funds	-	29 000
TOTAL - ALL FUNDS	<u>\$ 29 000</u>	<u>\$ 29 000</u>

Interfund balances consist of short-term lending/borrowing arrangements that generally result primarily from payroll and other regularly occurring charges that are primarily paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

2. Transfers

Interfund transfers are defined as "flow of assets without equivalent flow of assets in return and without a requirement for repayment." Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The District had the following interfund transfers for the fiscal year ended August 31, 2020.

FROM	TO	AMOUNT
General fund	Non major funds	\$ 561 066

**C. Capital Assets**

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

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1 669 968	\$ -	\$ -	\$ 1 669 968
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>1 669 968</u>	<u>-</u>	<u>-</u>	<u>1 669 968</u>
Capital Assets, Being Depreciated:				
Building and improvements	33 942 501	173 135	(1 649 421)	32 466 215
Furniture and equipment	3 072 083	362 243	(129 189)	3 305 137
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	<u>37 014 584</u>	<u>535 378</u>	<u>(1 778 610)</u>	<u>35 771 352</u>
Less Accumulated Depreciation For:				
Building and improvements	(14 935 124)	(716 191)	1 637 792	(14 013 523)
Furniture and equipment	(2 306 297)	(171 854)	124 425	(2 353 726)
TOTAL ACCUMULATED DEPRECIATION	<u>(17 241 421)</u>	<u>(888 045)</u>	<u>1 762 217</u>	<u>(16 367 249)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>19 773 163</u>	<u>(352 667)</u>	<u>(16 393)</u>	<u>19 404 103</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 21 443 131</u>	<u>\$ (352 667)</u>	<u>\$ (16 393)</u>	<u>\$ 21 074 071</u>

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

Governmental Activities:	
Instruction	\$ 470 918
Student transportation	132 454
Food service	22 577
Extracurricular activities	151 924
General administration	11 752
Plant maintenance and operations	95 397
Data processing services	3 023
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 888 045</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Long-Term Liabilities**

The District's long-term liabilities consist of bond indebtedness, notes payable, and net pension and OPEB liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-Term Liabilities:

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

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 10 795 000	\$ -	\$ 480 000	\$ 10 315 000	\$ 530 000
Issuance premiums (CIB's)	922 427	-	54 693	867 734	-
TOTAL BONDS					
PAYABLE, NET	11 717 427	-	534 693	11 182 734	530 000
Notes payable	1 081 954	282 017	302 502	1 061 469	306 354
Net pension liability	5 342 033	-	437 980	4 904 053	-
Net OPEB liability	7 557 922	-	810 164	6 747 758	-
GOVERNMENTAL ACTIVITY LONG- TERM LIABILITIES	\$ 25 699 336	\$ 282 017	\$ 2 085 339	\$ 23 896 014	\$ 836 354

General Obligation Bonds:

The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. The following is a summary of changes in the general obligation bonds for the fiscal year:

SERIES	INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
2012 REF	2.0-3.5%	2035	\$ 8 770 000	\$ 6 675 000	\$ -	\$ 320 000	\$ 6 355 000
2013 REF	2.0-4.0%	2037	\$ 4 735 000	4 120 000	-	160 000	3 960 000
Issuance							
Premium (CIBs)				922 427	-	54 693	867 734
Deferred loss on refunding				(728 278)	-	(43 097)	(685 181)
TOTALS				\$ 10 989 149	\$ -	\$ 491 596	\$ 10 497 553

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

GENERAL OBLIGATION BONDS			
YEAR ENDING AUGUST 31,	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2021	530 000	362 326	892 326
2022	520 000	346 426	866 426
2023	540 000	330 826	870 826
2024	540 000	312 826	852 826
2025	580 000	1 155 504	1 735 504
2026-2030	3 175 000	293 926	3 468 926
2031-2035	3 820 000	548 402	4 368 402
2036-2040	610 000	36 600	646 600
TOTALS	\$ 10 315 000	\$ 3 386 836	\$ 13 701 836

As of August 31, 2020, the District did not have any authorized but unissued bonds.

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2020, the District had no outstanding bonds that are considered defeased.



CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED**

Notes Payable:

The District issues notes to provide funds for operations, equipment, and capital improvements. The maintenance tax notes are secured by the proceeds of a continuing direct annual ad valorem tax levied for maintenance and the remaining notes are secured by the related capital assets.

The following is a summary of changes in the notes payable during the fiscal year:

DESCRIPTION	INTEREST RATE	ORIGINAL ISSUE	MATURITY DATE	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
2006 Bus loan	5.04%	\$ 135 574	2021	\$ 135 574	\$ -	\$ 66 122	\$ 69 452
2013 Maintenance tax notes	2.90%	\$ 450 000	2025	390 000	-	30 000	360 000
2013 Limited tax refunding bonds	2.23%	\$ 790 000	2023	465 000	-	115 000	350 000
2016 Bus loan	1.35%	\$ 270 421	2019	91 380	-	91 380	-
2020 Bus loan	2.25%	281 219	2023	-	282 017	-	282 017
<b>TOTAL NOTES PAYABLE</b>				<b>\$ 1 081 954</b>	<b>\$ 282 017</b>	<b>\$ 302 502</b>	<b>\$ 1 061 469</b>

Annual debt service requirements to maturity of the notes payable are as follows:

	PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2021	306 354	26 437	332 791
2022	243 990	13 470	257 460
2023	241 125	11 732	252 857
2024	135 000	5 873	140 873
2025	135 000	1 958	136 958
	<b>\$ 1 061 469</b>	<b>\$ 59 470</b>	<b>\$ 1 120 939</b>

**NOTE 4 - PENSION PLAN**

**A. Plan Description**

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

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

**B. Pension Plan Fiduciary Net Position**

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**C. 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.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 4 - PENSION PLAN**

**D. Contributions**

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2019 and 2020.

	CONTRIBUTION RATES	
	2019	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$	347 419
Member Contributions	\$	675 950
NECE On-behalf Contributions	\$	381 627

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

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

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

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

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

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 4 - PENSION PLAN - CONTINUED**

**E. Actuarial Assumptions**

The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

**F. Discount Rate**

The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

ASSET CLASS	TARGET ALLOCATION*	LONG-TERM EXPECTED ARITHMETIC REAL RATE OF RETURN	EXPECTED CONTRIBUTION TO LONG-TERM PORTFOLIO RETURNS**
<b>Global Equity</b>			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
<b>Stable Value</b>			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	- %	- %	- %
Stable Value Hedge Funds	4%	3.09%	0.12%
Cash	1%	(0.30)%	- %
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5%	7.48%	0.37%
Commodities	- %	- %	- %
<b>Risk Parity</b>			
Risk Parity	5%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag**			(0.79)%
<b>Total</b>	<u>100%</u>		<u>7.25%</u>

\* Target allocations are based on the FY2016 policy model.

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

For the fiscal year ended August 31, 2019, the annual money-weighted rate of return on pension plan investments was 7.25 percent. The annual money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 4 - PENSION PLAN - CONTINUED**

**G. 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%)
District proportionate share of the net pension liability	\$ 7 538 242	\$ 4 904 053	\$ 2 769 852

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

At August 31, 2020, the District reported a liability of \$4,904,053 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	\$ 4 904 053
State's proportionate share that is associated with the District	5 668 098
<b>TOTAL</b>	<b>\$ 10 572 151</b>

The net pension liability was measured as of 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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the District's proportion of the collective net pension liability was 0.00943% which was a decrease of 0.00027% from its proportion measured as of August 31, 2018.

**Changes Since the Prior Actuarial Valuation** - The following changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.

Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.

The discount rate changed from 6.907 percent as of August 31, 2018 to 7.25 percent as of August 31, 2019.

The long term assumed rate of return remained 7.25 percent.

The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

For the year ended August 31, 2020, the District recognized pension expense of \$890,378 and revenue of \$890,378 for support provided by the State.

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

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 20 601	\$ 170 276
Changes in actuarial assumptions	1 521 478	628 747
Difference between projected and actual investment earnings	294 833	245 591
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	811 707	86 619
Contributions paid to TRS subsequent to the measurement date	347 419	-
<b>TOTAL</b>	<b>\$ 2 996 038</b>	<b>\$ 1 131 233</b>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 4 - PENSION PLAN - CONTINUED**

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

YEAR ENDED AUGUST 31,	PENSION EXPENSE
2021	\$ 403 213
2022	\$ 343 027
2023	\$ 366 687
2024	\$ 340 829
2025	\$ 114 650
Thereafter	\$ (51 020)

**NOTE 5 - DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

**A. 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.

**B. 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, Texas 78701-2698; or by calling 512.542.6592.

**C. Benefits Provided**

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

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

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

<b>TRS-Care Monthly for Retirees</b>			
January 1, 2019 - December 31, 2019			
	<b>Medicare</b>		<b>Non-Medicare</b>
Retiree*	\$ 135	\$	200
Retiree and Spouse	529		689
Retiree* and Children	468		408
Retiree and Family	1 020		999

\* or surviving spouse

**D. 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.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 5 - DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - CONTINUED**

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% 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>Contribution Rates</u>	
	2019	2020
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%
Employer Contributions	\$ 110 619	
Member Contributions	\$ 57 061	
NECE On-behalf Contributions	\$ 134 553	

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

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.

**E. Actuarial Assumptions**

The total OPEB liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

**Actuarial Methods and Assumptions:**

<b>Valuation Date</b>	August 31, 2019
<b>Methods and Assumptions:</b>	
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019
Demographic Assumptions	Based on the experience study performed for the Teachers Retirement System of Texas of the period ending August 31, 2017.
Mortality Assumption	The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection, the ultimate improvement rates from the most recently published projection scale ("U-MP").
Healthcare Trend Rates	Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and initial medical trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year medical trend for Medicare retirees (107.74%) reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.
Election Rates	Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 9 years.
Aging Factors	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Expenses	Based on plan specific experience. Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.

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

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

**Other Information:** There was a significant plan change adopted in fiscal year ending August 31, 2018. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 5 - DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - CONTINUED**

**F. 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.

**G. 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 \$	8 146 709	6 747 758	\$ 5 653 357

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

At August 31, 2020, the District reported a liability of \$6,747,758 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provide 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	\$ 6 747 758
State's proportionate share that is associated with the District	8 966 261
<b>TOTAL</b>	<b>\$ 15 714 019</b>

The Net OPEB Liability was measured as of 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.

At August 31, 2019, the employer's proportion of the collective Net OPEB Liability was 0.0143% which was a decrease of 0.000970% from August 31, 2018.

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 4.5% rate is used.

	1% Decrease in Healthcare Trend Rate (3.5%)	Current Single Healthcare Trend Rate (4.5%)	1% Increase in Healthcare Trend Rate (5.5%)
District's proportionate share of the net OPEB liability \$	5 504 584	\$ 6 747 758	\$ 8 413 040

**Changes Since the Prior Actuarial Valuation** - The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

The following assumptions and other inputs which are specific to TRS-Care were updated from the prior year's report:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate was changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change lowered the Total OPEB Liability
- Change of Benefit Terms Since the Prior Measurement Date - Please see the 2018 TRS CAFR, page 68, section G. for a list of changes made effective September 1, 2017 by the 85<sup>th</sup> Texas Legislature.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

**NOTE 5 - DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - CONTINUED**

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended August 31, 2020, the District recognized OPEB expense of \$236,314 and revenue of \$236,314 for support provided by the State.

At 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 resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 331 035	\$ 1 104 199
Changes in actuarial assumptions	374 785	1 814 981
Difference between projected and actual investment earnings	876	148
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	27	2 214 673
Contributions paid to TRS subsequent to the measurement date	110 619	-
<b>TOTAL</b>	<b>\$ 817 342</b>	<b>\$ 5 134 001</b>

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 ENDED AUGUST 31,	OPEB EXPENSE AMOUNT
2021	\$ (678 492)
2022	\$ (678 492)
2023	\$ (678 727)
2024	\$ (678 862)
2025	(678 825)
Thereafter	\$ (1 033 880)

The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care received payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submissions by reporting entities for the month of May. For the fiscal years ended August 31, 2020, 2019 and 2018, the subsidy payments received by TRS-Care on behalf of the District were \$23,903, \$31,090 and \$23,903, respectively.

**NOTE 6 - TAX ABATEMENTS**

Crockett Independent School District entered into a property tax abatement agreement with a local business under Texas Tax Code, Title 3. Subtitle B. Chapter 313. Texas Economic Development (the Act) beginning August 17, 2015. Under the Act, Texas school districts may grant property tax abatements according to the category of taxable value of property in the District for the preceding tax year. Crockett Independent School District is a Category 4 district, which limits the minimum amount per qualified investment to \$40 million. The qualified property is limited only from maintenance and operation (M&O) property tax. The tax abatements, which are approved by the Texas Comptroller's office and the District's board of trustees, are granted for the purpose of enhancing the local community; improving the public education system; creating high-paying jobs; and advancing economic development goals.

The agreement was with a local business to invest a minimum capital investment of \$20,000,000 within the District's boundaries during a qualifying period and to create jobs. Such an investment would be limited to taxable value of the lesser of qualified appraised value or the agreement. The District's tax abatement expires December 31, 2025.



CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2020

NOTE 6 - TAX ABATEMENTS - CONTINUED

For the fiscal year ended August 31, 2020, The District foregoes collecting property taxes totaling \$702,823 resulting from the M&O tax rate of \$0.97 per \$100 of taxable value. The qualified property per the agreements had a taxable value of \$92,456,030 and was limited to a taxable value of \$20,000,000. However, in foregoing the property tax revenue, the District receives state funding through the Foundation School Program funding formula to offset the loss of property tax revenues. In addition, the local businesses receiving such property tax abatements have committed to compensate the District for the loss of M&O revenue, reimburse the District for all non-reimbursed costs for extraordinary education related expenses not funded by state aid, and compensate the District for the greater of \$100 per student per average daily attendance (ADA) or \$50,000 during the term of the agreement.

NOTE 7 - COVID-19 PANDEMIC IMPACT

A novel strain of coronavirus (COVID-19) was spread to the United States of America in January and February 2020. The World Health Organization declared the outbreak to constitute a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our student, employees and vendors of all which are uncertain and cannot be predicted. As of the date these financial statements are issued, COVID-19 had not materially affected results of operations in 2020. However, the impact of response efforts on future operations cannot be predicted.

#### REQUIRED SUPPLEMENTARY INFORMATION

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND - BUDGETARY COMPARISON  
For the Year Ended August 31, 2020

Exhibit G-1

DATA CONTROL CODES		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 4 647 819	\$ 4 947 306	\$ 4 955 666	\$ 8 360
5800	State program revenues	9 347 020	9 594 128	8 929 981	(664 147)
5900	Federal program revenue	174 000	248 693	248 694	1
5020	TOTAL REVENUES	<u>14 168 839</u>	<u>14 790 127</u>	<u>14 134 341</u>	<u>(655 786)</u>
	Expenditures:				
	Current:				
0011	Instruction	7 191 259	7 191 259	6 230 004	961 255
0012	Instructional resources and media services	15 200	18 200	15 299	2 901
0013	Curriculum and staff development	3 791	12 791	10 444	2 347
0021	Instructional leadership	124 902	124 902	114 561	10 341
0023	School leadership	1 092 586	1 102 586	1 077 619	24 967
0031	Guidance, counseling and evaluation services	491 336	491 336	439 343	51 993
0033	Health services	130 539	151 539	135 880	15 659
0034	Student (pupil) transportation	789 112	1 106 129	1 048 787	57 342
0036	Cocurricular/extracurricular activities	789 618	814 618	761 669	52 949
0041	General administration	776 049	831 049	817 462	13 587
0051	Plant maintenance and operations	1 882 689	2 186 537	2 073 624	112 913
0052	Security and monitoring services	65 000	64 000	27 109	36 891
0053	Data processing services	310 202	310 202	266 737	43 465
0071	Debt service	330 572	331 572	330 636	936
0081	Capital outlay	-	4 440	-	4 440
0099	Other intergovernmental charges	175 984	230 984	159 409	71 575
6030	TOTAL EXPENDITURES	<u>14 168 839</u>	<u>14 972 144</u>	<u>13 508 583</u>	<u>1 463 561</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(182 017)</u>	<u>625 758</u>	<u>807 775</u>
	Other Financing Sources (Uses):				
7914	Loan proceeds	-	282 017	282 017	-
8911	Transfer out	-	-	(561 066)	(561 066)
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>282 017</u>	<u>(279 049)</u>	<u>(561 066)</u>
1200	NET CHANGE IN FUND BALANCES	-	100 000	346 709	246 709
0100	Fund balance - Beginning	6 050 164	6 050 164	6 050 164	-
3000	FUND BALANCE - ENDING	<u>\$ 6 050 164</u>	<u>\$ 6 150 164</u>	<u>\$ 6 396 873</u>	<u>\$ 246 709</u>

The notes to the required supplementary information are an integral part of this schedule.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS\*

Exhibit G-2

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.00943%	0.00971%	0.008244%	0.007448%	0.007813%	0.003970%
District's proportionate share of the net pension liability (asset)	\$ 4 904 053	\$ 5 342 033	\$ 2 636 063	\$ 2 814 324	\$ 2 761 650	\$ 1 060 549
State's proportionate share of the net pension liability (asset) associated with the District	<u>5 668 098</u>	<u>6 221 361</u>	<u>4 042 644</u>	<u>4 490 238</u>	<u>4 218 961</u>	<u>3 809 386</u>
TOTAL	<u>\$ 10 572 151</u>	<u>\$ 11 563 394</u>	<u>\$ 6 678 707</u>	<u>\$ 7 304 562</u>	<u>\$ 6 980 611</u>	<u>\$ 4 869 935</u>
District's covered-employee payroll	\$ 8 178 051	\$ 8 026 468	\$ 7 639 383	\$ 6 864 528	\$ 6 468 174	\$ 6 397 274
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	59.97%	66.56%	34.51%	41.00%	42.70%	16.58%
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

\* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS\*

Exhibit G-3

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 347 419	\$ 332 390	\$ 328 924	\$ 270 232	\$ 234 508	\$ 231 333
Contributions in relation to the contractually required contribution	<u>(347 419)</u>	<u>(332 390)</u>	<u>(328 924)</u>	<u>(270 232)</u>	<u>(231 333)</u>	<u>(231 333)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 8 778 561	\$ 8 178 051	\$ 8 026 468	\$ 7 639 383	\$ 6 864 528	\$ 6 468 174
Contributions as a percentage of covered-employee payroll	3.96%	4.06%	4.10%	3.54%	3.42%	3.58%

\* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF OPEB LIABILITY  
AND DISTRICT'S OPEB CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS\*

Exhibit G-4

<b>District's Proportionate Share of Liability</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
District's proportion of the OPEBL	0.0143%	0.0151%	0.0187%
District's proportionate share of the OPEBL	\$ 6 747 758	\$ 7 557 922	\$ 8 152 462
State share of the OPEBL associated with the District	8 966 261	6 209 167	5 580 987
<b>TOTAL</b>	<b>\$ 15 714 019</b>	<b>\$ 13 767 089</b>	<b>\$ 13 733 449</b>
District's covered-employee payroll* <i>Prior FY TRS Gross - September through August</i>	\$ 8 178 051	\$ 8 026 468	\$ 7 639 383
Proportionate share/covered payroll	82.51%	94.16%	106.72%
Plan fiduciary net position/total OPEB liability	2.66%	1.57%	0.91%

<b>District Contributions</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 110 619	\$ 98 553	\$ 104 369
Contributions to required contribution	(110 619)	(98 553)	(104 369)
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Current fiscal year TRS gross	\$ 8 778 561	\$ 8 178 051	\$ 8 026 468
Contributions to covered payroll	1.26%	1.21%	1.30%

Information provided by the Teacher Retirement System of Texas.

\* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended August 31, 2020

NOTE 1 - BUDGET

Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the national school breakfast and lunch program special revenue fund. The Texas Education code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to August 20 of the preceding fiscal year, 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 formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

Notes related to the Defined Benefit Pension and OPEB Plans

See the financial statements notes for changes in the pension and OPEB plan assumptions and actuarial methods.

## SUPPLEMENTARY INFORMATION



CROCKETT INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
August 31, 2020

DATA CONTROL CODES		211	224	225	240	244
		ESEA TITLE I GRANT	IDEA - PART B FORMULA GRANT	IDEA - PART B PRESCHOOL GRANT	CHILD NUTRITION FUND	VOCATIONAL EDUCATION BASIC GRANT
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ 482	\$ -	\$ 437 541	\$ -
1240	Due from other governments	-	-	-	39 464	12 996
1000	TOTAL ASSETS	<u>\$ -</u>	<u>\$ 482</u>	<u>\$ -</u>	<u>\$ 477 005</u>	<u>\$ 12 996</u>
	LIABILITIES					
2110	Accounts payable	\$ -	\$ 482	\$ -	\$ 93 514	\$ 12 996
2170	Due to other funds	-	-	-	-	-
2000	TOTAL LIABILITIES	<u>-</u>	<u>482</u>	<u>-</u>	<u>93 514</u>	<u>12 996</u>
	FUND BALANCES					
3450	Restricted for food service	-	-	-	383 491	-
3490	Other restricted fund balance	-	-	-	-	-
3000	TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>383 491</u>	<u>-</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 482</u>	<u>\$ -</u>	<u>\$ 477 005</u>	<u>\$ 12 996</u>

See independent auditors' report.

255 TITLE II TEACHER AND PRINCIPAL TRAINING	263  TITLE III BILINGUAL ESL	266  ESSER GRANT	270 RURAL AND LOW INCOME SCHOOLS	276  TTIPS CYCLE 5 YEARS 1 & 2	287  CROCKETT ON TRACK	289  CROCKETT READ PROGRAM AND SUMMER SCHOOL LEP	385  STATE SUPPLEMENTAL VISUALLY IMPAIRED
\$ -	\$ -	\$ -	\$ -	\$ 29 000	\$ -	\$ 1 336	\$ -
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29 000</u>	<u>\$ -</u>	<u>\$ 1 336</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	29 000	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29 000</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1 336	-
-	-	-	-	-	-	<u>1 336</u>	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29 000</u>	<u>\$ -</u>	<u>\$ 1 336</u>	<u>\$ -</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED  
August 31, 2020

Exhibit H-1  
Page 2 OF 2

DATA CONTROL CODES		410	427	429	461	TOTAL NONMAJOR FUNDS (SEE EXHIBIT C-1)
		STATE TEXTBOOK FUND	STATE SPECIAL EDUCATION	PRE- KINDERGARTEN GRANT PROGRAM	CAMPUS ACTIVITY FUNDS	
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ 74 630	\$ 3 450	\$ 109 419	\$ 655 858
1240	Due from other governments	-	-	-	-	52 460
1000	TOTAL ASSETS	<u>\$ -</u>	<u>\$ 74 630</u>	<u>\$ 3 450</u>	<u>\$ 109 419</u>	<u>\$ 708 318</u>
	LIABILITIES					
2110	Accounts payable	\$ -	\$ 1 028	\$ -	\$ -	\$ 108 020
2170	Due to other funds	-	-	-	-	29 000
2000	TOTAL LIABILITIES	<u>-</u>	<u>1 028</u>	<u>-</u>	<u>-</u>	<u>137 020</u>
	FUND BALANCES					
3450	Restricted for food service	-	-	-	-	383 491
3490	Other restricted fund balance	-	73 602	3 450	109 419	187 807
3000	TOTAL FUND BALANCES	<u>-</u>	<u>73 602</u>	<u>3 450</u>	<u>109 419</u>	<u>571 298</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 74 630</u>	<u>\$ 3 450</u>	<u>\$ 109 419</u>	<u>\$ 708 318</u>

See independent auditors' report.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended August 31, 2020

DATA CONTROL CODES		211	224	225	240	244
		ESEA TITLE I GRANT	IDEA - PART B FORMULA GRANT	IDEA - PART B PRESCHOOL GRANT	CHILD NUTRITION FUND	VOCATIONAL EDUCATION BASIC GRANT
	Revenues:					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 33 824	\$ -
5800	State program revenues	-	-	-	4 508	-
5900	Federal program revenues	597 874	316 722	8 002	1 708 781	26 027
5020	TOTAL REVENUES	<u>597 874</u>	<u>316 722</u>	<u>8 002</u>	<u>1 747 113</u>	<u>26 027</u>
	Expenditures:					
	Current:					
0011	Instruction	544 870	168 217	8 002	-	26 027
0021	Instructional leadership	13 950	24 596	-	-	-
0031	Guidance, counseling, and evaluation services	-	124 391	-	-	-
0035	Food services	-	-	-	1 374 354	-
0036	Curriculum/extracurricular activities	-	-	-	-	-
0041	General administration	34 954	-	-	-	-
0052	Security and monitoring	-	-	-	-	-
0061	Community services	4 100	-	-	-	-
6030	TOTAL EXPENDITURES	<u>597 874</u>	<u>317 204</u>	<u>8 002</u>	<u>1 374 354</u>	<u>26 027</u>
1200	NET CHANGE IN FUND BALANCE	-	(482)	-	372 759	-
	Other Financing Sources (Uses):					
7915	Transfer in	-	482	-	-	-
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>482</u>	<u>-</u>	<u>-</u>	<u>-</u>
0100	Fund balances - Beginning	-	-	-	10 732	-
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 383 491</u>	<u>\$ -</u>

See independent auditors' report.

255 TITLE II TEACHER AND PRINCIPAL TRAINING	263  TITLE III BILINGUAL ESL	266  ESSER GRANT	270 RURAL AND LOW INCOME SCHOOLS	276  TTIPS CYCLE 5 YEARS 1 & 2	287  CROCKETT ON TRACK	289  CROCKETT READ PROGRAM AND SUMMER SCHOOL LEP	385  STATE SUPPLEMENTAL VISUALLY IMPAIRED
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	803
<u>80 567</u>	<u>12 049</u>	<u>-</u>	<u>25 197</u>	<u>882 563</u>	<u>26 863</u>	<u>1 336</u>	<u>-</u>
<u>80 567</u>	<u>12 049</u>	<u>-</u>	<u>25 197</u>	<u>882 563</u>	<u>26 863</u>	<u>1 336</u>	<u>803</u>
80 567	12 049	531 584	25 197	728 903	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	151 755	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	30 905	1 557	-	-
-	-	-	-	-	25 306	-	-
-	-	-	-	-	-	-	-
<u>80 567</u>	<u>12 049</u>	<u>531 584</u>	<u>25 197</u>	<u>911 563</u>	<u>26 863</u>	<u>-</u>	<u>803</u>
-	-	(531 584)	-	(29 000)	-	1 336	-
-	-	<u>531 584</u>	<u>-</u>	<u>29 000</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	<u>531 584</u>	<u>-</u>	<u>29 000</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1 336</u>	\$ <u>-</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED  
 For the Year Ended August 31, 2020

Exhibit H-2  
 Page 2 OF 2

DATA CONTROL CODES		410	427	429	461	TOTAL NONMAJOR FUNDS (SEE EXHIBIT C-1)
		STATE TEXTBOOK FUND	STATE SPECIAL EDUCATION	PRE- KINDERGARTEN GRANT PROGRAM	CAMPUS ACTIVITY FUNDS	
	Revenues:					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 71 350	\$ 105 174
5800	State program revenues	79 214	141 635	28 900	-	255 060
5900	Federal program revenues	-	-	-	-	3 685 981
5020	TOTAL REVENUES	<u>79 214</u>	<u>141 635</u>	<u>28 900</u>	<u>71 350</u>	<u>4 046 215</u>
	Expenditures:					
	Current:					
0011	Instruction	79 214	7 218	8 497	-	2 221 148
0021	Instructional leadership	-	-	-	-	38 546
0031	Guidance, counseling, and evaluation services	-	60 815	-	-	336 961
0035	Food services	-	-	-	-	1 374 354
0036	Curriculum/extracurricular activities	-	-	-	69 976	69 976
0041	General administration	-	-	-	-	67 416
0052	Security and monitoring	-	-	17 403	-	42 709
0061	Community services	-	-	-	-	4 100
6030	TOTAL EXPENDITURES	<u>79 214</u>	<u>68 033</u>	<u>25 900</u>	<u>69 976</u>	<u>4 155 210</u>
1200	NET CHANGE IN FUND BALANCE	-	73 602	3 000	1 374	(108 995)
	Other Financing Sources (Uses):					
7915	Transfer in	-	-	-	-	561 066
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>561 066</u>
0100	Fund balances - Beginning	<u>-</u>	<u>-</u>	<u>450</u>	<u>108 045</u>	<u>119 227</u>
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ 73 602</u>	<u>\$ 3 450</u>	<u>\$ 109 419</u>	<u>\$ 571 298</u>

See independent auditors' report.

## OTHER SUPPLEMENTARY INFORMATION

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended August 31, 2020

YEAR ENDED AUGUST 31,	1	2	3	
	TAX RATES		ASSESSED/APPRAISAL VALUE FOR SCHOOL TAX PURPOSES	
	MAINTENANCE	DEBT SERVICE		
2011 and prior years	VARIOUS	VARIOUS		VARIOUS
2012	1.0400	0.2299	\$	407 528 428
2013	1.0400	0.2271	\$	406 978 320
2014	1.0400	0.2100	\$	419 028 320
2015	1.0400	0.2100	\$	419 223 280
2016	1.0400	0.2100	\$	407 449 200
2017	1.0400	0.2100	\$	458 521 360
2018	1.0400	0.2100	\$	450 274 960
2019	1.0400	0.2100	\$	480 863 890
2020 (School year under audit)	0.9700	0.2100	\$	488 023 051
1000 TOTALS				

See independent auditor's report.



## Exhibit J-1

10 BEGINNING BALANCE 09/01	20 CURRENT YEAR'S TOTAL LEVY	31 MAINTENANCE COLLECTIONS	32 DEBT SERVICE COLLECTIONS	40 ENTIRE YEAR'S ADJUSTMENTS	50 ENDING BALANCE 08/31
\$ 268 098	\$ -	\$ 9 254	\$ 1 299	\$ (11 297)	\$ 246 248
38 242	-	3 836	882	(668)	32 856
52 084	-	4 950	1 137	(790)	45 207
57 989	-	6 115	1 256	(571)	50 047
69 531	-	7 523	1 571	(526)	59 911
84 272	-	11 530	2 419	(1 539)	68 784
107 047	-	13 304	2 799	(1 531)	89 413
138 648	-	32 870	6 748	(452)	98 578
242 392	-	68 478	14 092	(1 103)	158 719
-	5 758 672	4 268 293	1 097 406	(13 475)	379 498
<u>\$ 1 058 303</u>	<u>\$ 5 758 672</u>	<u>\$ 4 426 153</u>	<u>\$ 1 129 609</u>	<u>\$ (31 952)</u>	<u>\$ 1 229 261</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2020

Exhibit J-2

DATA CONTROL CODES		1	2	3	4
		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 54 689	\$ 33 824	\$ 33 824	\$ -
5800	State program revenues	4 578	4 508	4 508	-
5900	Federal program revenues	<u>1 184 717</u>	<u>1 669 316</u>	<u>1 708 781</u>	<u>39 465</u>
5020	TOTAL REVENUES	<u>1 243 984</u>	<u>1 707 648</u>	<u>1 747 113</u>	<u>39 465</u>
	Expenditures:				
	Current:				
0035	Food services	<u>1 243 984</u>	<u>1 548 741</u>	<u>1 374 354</u>	<u>174 387</u>
6030	TOTAL EXPENDITURES	<u>1 243 984</u>	<u>1 548 741</u>	<u>1 374 354</u>	<u>174 387</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	158 907	372 759	213 852
0100	Fund balance - Beginning	<u>10 732</u>	<u>10 732</u>	<u>10 732</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 10 732</u>	<u>\$ 169 639</u>	<u>\$ 383 491</u>	<u>\$ 213 852</u>

See independent auditors' report.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
DEBT SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2020

Exhibit J-3

DATA CONTROL CODES		1  ORIGINAL BUDGET	2  FINAL BUDGET	3  ACTUAL	4  VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 858 225	\$ 1 173 534	\$ 1 174 736	\$ 1 202
5800	State program revenues	-	33 162	33 162	-
5020	TOTAL REVENUES	<u>858 225</u>	<u>1 206 696</u>	<u>1 207 898</u>	<u>1 202</u>
	Expenditures:				
0071	Principal on long-term debt	<u>858 225</u>	<u>858 225</u>	<u>857 225</u>	<u>1 000</u>
6030	TOTAL EXPENDITURES	<u>858 225</u>	<u>858 225</u>	<u>857 225</u>	<u>1 000</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>348 471</u>	<u>350 673</u>	<u>2 202</u>
1200	NET CHANGE IN FUND BALANCE	-	348 471	350 673	2 202
0100	Fund balance - Beginning	<u>1 665 348</u>	<u>1 665 348</u>	<u>1 665 348</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 1 665 348</u>	<u>\$ 2 013 819</u>	<u>\$ 2 016 021</u>	<u>\$ 2 202</u>

See independent auditors' report.

COMPLIANCE, INTERNAL CONTROL SECTION AND FEDERAL AWARDS

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Crockett Independent School District  
Crockett, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crockett Independent School District as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued our report thereon dated December 14, 2020.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

## Purpose of this Report

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

Lufkin, Texas  
December 14, 2020

  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

Board of Trustees  
Crockett Independent School District  
Crockett, Texas

Members of the Board of Trustees:

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

We have audited Crockett Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Crockett Independent School District's major federal programs for the year ended August 31, 2020. Crockett Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

In our opinion, Crockett Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

## ***Report on Internal Control Over Compliance***

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

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

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

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

Lufkin, Texas  
December 14, 2020

  
CERTIFIED PUBLIC ACCOUNTANTS



CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended August 31, 2020

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

2. Federal Awards

Internal control over major programs:

Material control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.377	School Improvement Grant
10.558	Child and Adult Care Food Program

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

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

**Corrective Action Plan**

Not Applicable

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
For the Year Ended August 31, 2020

NONE

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2020

Exhibit K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	(2) FEDERAL CFDA NUMBER	(3) PASS THROUGH GRANTOR	(4) FEDERAL EXPENDITURES
<b>U.S. Department of Education</b>			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010	20610101113901	\$ 623 295
IDEA - Part B Formula	84.027	206600011139016600	330 665
IDEA - Part B Preschool	84.173	206610011139016610	8 336
Career and Technology - Basic Grant	84.048	20420006113901	26 027
ESEA Title V, Part B, Subpart 2 - Rural and Low-Income Program	84.358	20696001113901	26 091
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367	20694501113901	83 967
Summer School LEP	84.369	69551702	1 336
Title IV, Part A, Subpart 1	84.424	20680101113901	28 178
TTIPS CYCLE 5 Year 3	84.377	206107317110002	895 063
Passed Through Region IV Education Service Center:			
Title III, Part A - English Language Acquisition and Language Enhancement	84.365	20671001236950	12 049
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2 035 007</u>
<b>U.S. Department of Agriculture:</b>			
Commodities	10.565	00607	64 591
School Breakfast Program	10.553	71401801	465 434
National School Lunch Program	10.555	71301801	715 016
Child and Adult Care Food Program	10.558	00607	436 197
Fresh Fruit and Vegetable Program	10.582	00607	27 543
Schools and Roads - Grants to States	10.665	N/A	35 389
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1 744 170</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3 779 177</u>

See notes to the Schedule of Expenditures of Federal Awards.

CROCKETT INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2020

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Crockett Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

National School Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation.

The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance but had indirect cost of \$57,807 included in the General Fund. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards	\$ 3 779 177
General Fund - Federal Revenue:	
Student Health and Related Services (SHARS)	111 285
E-rate	<u>44 213</u>
TOTAL FEDERAL REVENUES	<u>\$ 3 934 675</u>

CROCKETT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REQUIRED RESPONSES TO SELECTED  
SCHOOL FIRST INDICATORS  
As of August 31, 2020

Exhibit L-1

DATA CONTROL CODES		RESPONSES
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any debt agreement at fiscal year end?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF4	Was the school district issued a warrant hold?	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administration Code and other statutes, laws, rules that were in effect at the school district fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ N/A

See independent auditors' report.

**APPENDIX C**

**FORM OF CO-BOND COUNSEL'S OPINION**

**HAYNES AND BOONE, LLP**  
1221 McKinney Street, Suite 4000  
Houston, Texas 77010

**POWELL LAW GROUP, LLP**  
108 Wild Basin Road, Suite 100  
Austin, Texas 78746

\_\_\_\_\_, 2021

WE HAVE ACTED as Co-Bond Counsel for CROCKETT INDEPENDENT SCHOOL DISTRICT (the “**District**”), in connection with the issuance of bonds (the “**Bonds**”) described as follows:

CROCKETT INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021, dated February 15, 2021, in the principal amount of \$\_\_\_\_\_ and maturing on August 15 in each year from \_\_\_\_\_ through \_\_\_\_\_, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 of principal amount or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the bond order (the “**Order**”) adopted by the Board of Trustees of the District authorizing their issuance and the Officer’s Pricing Certificate executed in connection therewith. Capitalized terms used herein and not otherwise defined shall have the meanings assigned in the Order.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have participated in the preparation of and have examined a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded with the proceeds of the Bonds (the “**Refunded Bonds**”), as described in the Order. The transcript contains certified copies of certain proceedings of the District, including an escrow agreement (the “**Escrow Agreement**”) between the District and BOKF, NA, Dallas, Texas, as escrow agent (the “**Escrow Agent**”); a report (the “**Report**”) of Public Finance Partners LLC, Rockford, Minnesota (the “**Verification Agent**”), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the Refunded Bonds; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1 of this issue. We have also examined such portions of the Constitution and statutes of the State of Texas as we have deemed necessary for the purposes of this opinion.

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.

BASED UPON SUCH EXAMINATION, it is our opinion that, under existing law:

(A) 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; the Bonds constitute valid and legally binding obligations of the District enforceable 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; and the Bonds have been authorized and delivered in accordance with law; and

(B) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above. We express no opinion as to any matters not specifically covered hereby.

Respectfully submitted,