

OFFICIAL STATEMENT  
Dated June 24, 2021



**Ratings:**  
**Moody's: "Aaa"**  
**PSF Guaranteed**  
**(See "OTHER INFORMATION - Ratings"**  
**and "THE PERMANENT SCHOOL FUND**  
**GUARANTEE PROGRAM" herein.)**

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

In the opinion of Bond Counsel, under existing law, the interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS – TAX EXEMPTION" herein for a discussion of the opinion of Bond Counsel.

**\$17,430,000**  
**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Bexar County)**  
**UNLIMITED TAX REFUNDING BONDS,**  
**SERIES 2021A**

**Dated Date: June 15, 2021**

**Due: August 15, as shown on page 2 hereof**

**Interest to Accrue from Date of Delivery**

**PAYMENT TERMS** . . . Interest on the \$17,430,000 Edgewood Independent School District Unlimited Tax Refunding Bonds, Series 2021A (the "Bonds") will accrue from the Date of Delivery (defined below) to the Underwriters (defined below), will be payable on February 15 and August 15 of each year commencing February 15, 2022 until stated maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the actual purchasers thereof (the "Beneficial Owners").** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is UMB Bank, Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly, Texas Government Code, Chapter 1207, as amended (the "Act"), and an order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Edgewood Independent School District (the "District") on June 21, 2021 (see "THE BONDS - Authority for Issuance"). In the Bond Order and as permitted by the Act, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate" and together with the Bond Order, the "Order") to effectuate the sale of the Bonds. The Pricing Certificate was executed by a duly authorized District representative on June 24, 2021.

**SECURITY** . . . The Bonds are direct obligations of the District payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see "THE BONDS - Security and Source of Payment"). **The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"), which guarantee will become effective upon approval of the Bonds by the Attorney General of Texas.**

**PURPOSE** . . . Proceeds from the sale of the Bonds will be utilized to (i) currently refund certain maturities of the District's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuance of the Bonds (see "PLAN OF FINANCING - Use of Bond Proceeds").

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**CUSIP PREFIX: 280515**  
**MATURITY SCHEDULE & 9 DIGIT CUSIP**  
**See Schedule on Page 2**

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**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Bracewell LLP, San Antonio, Texas, as Bond Counsel (see Appendix C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by its legal counsel, Locke Lord LLP, Austin, Texas.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on or about Wednesday, July 14, 2021 (the "Date of Delivery").

**RAYMOND JAMES**

**RBC CAPITAL MARKETS**

**FHN FINANCIAL CAPITAL MARKETS**

**FROST BANK**

## MATURITY SCHEDULE

CUSIP No. Prefix: 280515 <sup>(1)</sup>

<u>Amount</u>	<u>Maturity (August 15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 1,630,000	2022	5.000%	0.210%	D20
1,435,000	2023	5.000%	0.280%	D38
1,500,000	2024	5.000%	0.390%	D46
1,585,000	2025	5.000%	0.550%	D53
1,660,000	2026	5.000%	0.710%	D61
1,740,000	2027	5.000%	0.840%	D79
1,830,000	2028	5.000%	0.950%	D87
1,915,000	2029	5.000%	1.090%	D95
2,015,000	2030	5.000%	1.200%	E29
2,120,000	2031	5.000%	1.280%	E37

**(Interest accrues from the Date of Delivery)**

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to stated maturity.

- (1) 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 and CUSIP numbers are included solely for convenience of the registered owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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

## USE OF INFORMATION

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

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

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

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

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

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

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

*NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION IS 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 THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.*

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

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

## OFFICIAL STATEMENT SUMMARY

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

<b>THE DISTRICT</b> .....	The Edgewood Independent School District (the “District”) is a political subdivision located in Bexar County, Texas. The District covers approximately 19.31 square miles in area (see “INTRODUCTION - Description of the District”).
<b>THE BONDS</b> .....	The District is issuing its \$17,430,000 Unlimited Tax Refunding Bonds, Series 2021A (the “Bonds”). The Bonds mature on August 15 in each of the years identified in the table appearing on page 2 hereof.
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the Date of Delivery (defined herein) of the Bonds to the Underwriters, and is payable initially on February 15, 2022 and on each August 15 and February 15 thereafter until stated maturity (see “THE BONDS - Description of the Bonds” and “THE BONDS - Redemption”).
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly, Texas Government Code, Chapter 1207, as amended (the “Act”), and an order (the “Bond Order”) adopted by the Board of Trustees of the District (the “Board”) on June 21, 2021. In the Bond Order, and as permitted by the Act, the Board delegated to certain District officials the ability to execute a pricing certificate (the “Pricing Certificate” and together with the Bond Order, the “Order”) to effectuate the sale of the Bonds (see “THE BONDS - Authority for Issuance”). The Pricing Certificate was executed by a duly authorized District representative on June 24, 2021.
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see “THE BONDS - Security and Source of Payment”).
<b>PERMANENT SCHOOL FUND</b>	
<b>GUARANTEE</b> .....	The District has received conditional approval from the Texas Education Agency (the “TEA”) for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas upon satisfaction of certain conditions (primarily being the Texas Attorney General’s approval of the Bonds) (see “THE BONDS – Permanent School Fund Guarantee” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
<b>NO REDEMPTION</b> .....	The Bonds are not subject to redemption prior to stated maturity.
<b>TAX EXEMPTION</b> .....	In the opinion of Bracewell LLP, Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS – TAX EXEMPTION” for a discussion of the opinion of Bond Counsel.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be utilized to (i) currently refund certain maturities of the District’s currently outstanding indebtedness as disclosed in Schedule I hereto (the “Refunded Bonds”) for debt service savings and (ii) pay the costs of issuance of the Bonds (see “PLAN OF FINANCING – Use of Bond Proceeds”).
<b>RATINGS</b> .....	The Bonds and the presently outstanding unlimited tax-supported debt of the District is rated “A1” by Moody’s Investor Services, Inc. (“Moody’s”) without regard to credit enhancement. The District also has three unlimited tax-supported issues outstanding, excluding the Bonds, which are rated “Aaa” by Moody’s by virtue of the guarantee of the Texas Permanent School Fund (see “OTHER INFORMATION - Ratings” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”). The District has one unlimited tax-supported issue and one limited tax-supported issue that are not additionally secured through the Permanent School Fund Guarantee Program. The District has received conditional approval from the TEA for the payment of the Bonds to be guaranteed by the corpus of the Texas Permanent School Fund.

**BOOK-ENTRY-ONLY**

**SYSTEM** ..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

**PAYMENT RECORD** ..... The District has never defaulted on the payment of its tax-supported debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 6/30 <sup>(1)</sup>	Estimated District Population <sup>(2)</sup>	Taxable Assessed Valuation <sup>(3)</sup>	Per Capita Taxable Assessed Valuation	Net Tax Supported Debt <sup>(4)</sup>	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2017	54,273	\$ 1,168,536,903	\$ 21,531	\$ 19,096,312	\$ 352	1.63%	97.96%
2018	51,262	1,274,524,571	24,863	21,395,130	417	1.68%	95.66%
2019	50,546	1,390,492,396	27,509	21,913,567	434	1.58%	96.90%
2020	45,191	1,493,018,022	33,038	26,912,743	596	1.80%	97.12%
2021	41,919	1,721,576,248	41,069	28,206,525 <sup>(5)</sup>	673 <sup>(5)</sup>	1.64% <sup>(5)</sup>	88.00% <sup>(6)</sup>

(1) For years ended 2017 through 2018, the fiscal year end was August 31. The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.

(2) Source: Municipal Advisory Council of Texas.

(3) Source: Bexar Appraisal District’s Certified Totals, subject to change during the ensuing year.

(4) Excludes the District’s Limited Tax Debt, which is payable from the District’s maintenance and operations tax.

(5) Includes the Bonds and excludes the Refunded Bonds. Also, excludes \$11,766,262 or 40.069% of certain of the District’s currently outstanding unlimited tax bonds (as shown in detail in footnote three of Table 3 herein) which are supported by the Texas Education Agency’s Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code as amended, and \$7,092,213 or 40.069% of certain of the District’s currently outstanding unlimited tax bonds, including the Bonds, (as shown in detail in footnote 3 of Table 3 herein) which are supported by the Texas Education Agency’s Existing Debt Allotment program as provided by Chapter 46, Texas Education Code, as amended.

(6) As of April 30, 2021.

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## CHANGES IN NET ASSETS CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended <sup>(1)</sup>				
	6/30/2020	6/30/2019	8/31/2018	8/31/2017	8/31/2016
Beginning Net Assets	\$ 56,201,330	\$ 46,780,022 <sup>(3)</sup>	\$ 114,383,113	\$ 114,306,346	\$ 116,667,313
Total Revenue	135,048,504	127,917,465	110,299,345	130,546,520	137,115,767
Total Expenditures	(144,001,541)	(118,496,157)	(97,479,221)	(130,469,753)	(139,476,734)
Prior Period Adjustment	1,424,241 <sup>(2)</sup>	-	(80,423,216) <sup>(4)</sup>	-	-
Ending Net Assets	<u>\$ 48,672,534</u>	<u>\$ 56,201,330</u>	<u>\$ 46,780,021</u>	<u>\$ 114,383,113</u>	<u>\$ 114,306,346</u>

- (1) The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.
- (2) The District had recorded unearned revenue for an EFA payment that came in several fiscal years ago. The District was concerned that the money would eventually have to be given back to the Texas Education Agency. Due to the concern, they put the balance of that revenue in unearned revenue. In FY 20, it was apparent that the money was the District's and therefore, an addition to fund balance in the debt service fund of \$904,840 was made. The District also had understated the balance of claims and estimated claims payable in the Worker's Compensation Internal Service Fund. The effect of correcting that was to decrease net position in the internal service fund by \$426,484. In FY 2019, the District switched from an August 31 year-end to a June 30 year-end. In FY 19, the District recognized 12 months of depreciation instead of 10 months. The effect of correcting that was an increase to net position of \$945,885.
- (3) Restated.
- (4) During fiscal year 2018, the District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB Statement No. 75, the District must assume their proportionate share of the Net Postemployment Benefits Other Than Pensions (OPEB) Liability of the Teachers Retirement System of Texas. Adoption of the GASB Statement required a prior period adjustment of \$80,423,216 to retroactively report the effect.

## GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended <sup>(1)</sup>				
	6/30/2020	6/30/2019	8/31/2018	8/31/2017	8/31/2016
Beginning Balance	\$ 50,063,797	\$ 40,252,803	\$ 37,589,504	\$ 36,082,203	\$ 39,615,812
Total Revenue	108,463,332	100,443,160	107,985,780	107,194,997	112,947,815
Total Expenditures	(109,243,724)	(90,658,268)	(117,108,589)	(107,373,963)	(112,481,424)
Other Resources (Uses)	609,355	26,102	11,786,108	(873,216)	(4,000,000)
Prior Period Adjustment	-	-	-	-	-
Extraordinary Item - Revenue	-	-	-	2,559,483	-
Ending Balance <sup>(1)(2)</sup>	<u>\$ 49,892,760</u>	<u>\$ 50,063,797</u>	<u>\$ 40,252,803</u>	<u>\$ 37,589,504</u>	<u>\$ 36,082,203</u>

- (1) The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.
- (2) The District estimates that the Ending Balance for Fiscal Year ending 2021 to be approximately \$47,500,000.

For additional information regarding the District, please contact:

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Edgewood Independent School District  
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## DISTRICT OFFICIALS, STAFF AND CONSULTANTS

### THE BOARD OF TRUSTEES

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Martha Castilla President	5 Years	November 2024	Senior Health Educator / Content Expert
Stella Camacho Vice President	3 Years	November 2022	Self-Employed
Joseph M. Guerra Secretary	1 Year	November 2024	Retired
James Hernandez Member	3 Years	November 2022	Full Time Doctoral Student
Richard Santoyo Member	1 Year	November 2024	Retired
Luis Gomez Trustee	3 Years	November 2022	Department of Homeland Security / FEMA
Dina Serrano Trustee	3 Years	November 2022	Headstart Teacher

### APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Dr. Eduardo Hernandez	Superintendent of Schools	3 Years
Phillip Chavez	Deputy Superintendent	5 Years
Myrna Martinez	Chief of Staff	5 Years, 5 Months
Pamela Bendele	Chief Financial Officer	3 Months

### CONSULTANTS AND ADVISORS

Certified Public Accountants ..... Pattillo, Brown & Hill, L.L.P., Certified Public Accountants  
Waco, Texas

Bond Counsel ..... Bracewell LLP  
San Antonio, Texas

Financial Advisor.....Hilltop Securities Inc.  
San Antonio, Texas



**OFFICIAL STATEMENT**  
**RELATING TO**  
**\$17,430,000**  
**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Bexar County)**  
**UNLIMITED TAX REFUNDING BONDS,**  
**SERIES 2021A**

**INTRODUCTION**

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information pertaining to the \$17,430,000 Edgewood Independent School District Unlimited Tax Refunding Bonds, Series 2021A (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (defined herein), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Edgewood Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), San Antonio, Texas, upon request by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

**DESCRIPTION OF THE DISTRICT . . .** The District is a political subdivision located in Bexar County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered four-year terms with elections being held in November of even-numbered years. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 19.31 square miles in Bexar County, Texas (see "APPENDIX A – General Information Regarding the District").

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and phased reopening of the State. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 became effective on March 10, 2021 and remains in effect until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34, in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. Notwithstanding the above, Executive Order GA-36 provides for public schools to continue to follow policies regarding the wearing of face coverings to the extent reflected in current guidance by TEA, until June 4, 2021. However, Executive Order GA-36 requires TEA to revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. 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 March 12, 2021, TEA issued updated public planning health guidance in accordance with Executive Order GA-34 to address on campus and virtual instruction, administrative and extracurricular activities, and school visits. 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, and then again provided at time of enrollment or at the earliest practical time after enrollment) 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 in prevent the spread of COVID-19. Pursuant to Executive Order GA-36, TEA shall revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering.

The TEA advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, TEA has announced that the State will provide a "hold harmless" to Texas school systems for the 2020-2021 school year. Under this "hold harmless" provision, state funding will be made available to school districts in line with attendance projections made prior to the public health crisis even if the district has experienced a decline in enrollment and attendance so long as the district maintains or increases its current level of on-campus attendance. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the 2020-2021 school year, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on 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 District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

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

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

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

## **PLAN OF FINANCING**

**USE OF BOND PROCEEDS . . .** Proceeds from the sale of the Bonds will be utilized to (i) currently refund certain maturities of the District's currently outstanding indebtedness listed in Schedule I hereto (the "Refunded Bonds") for debt service savings and (ii) pay the costs of issuance of the Bonds.

**REFUNDED BONDS . . .** The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and UMB Bank, Austin, Texas (the "Escrow Agent"). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with other funds of the District, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

HilltopSecurities, in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the "Sufficiency Certificate") of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effectuated the defeasance of the Refunded Bonds in accordance with applicable law and thereafter the District will have no further responsibility with respect to the payment of such Refunded Bonds including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Bonds will no longer be payable from ad valorem taxes but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District.

## **THE BONDS**

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated June 15, 2021 and mature on August 15 in each of the years and in the principal amounts shown in the table appearing on page 2 hereof. Interest accrues from the date of initial delivery (the “Date of Delivery”) of the Bonds to the Underwriters, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2022 until stated maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity, and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the actual purchasers thereof (the “Beneficial Owners”).** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State, including Chapter 1207, as amended, Texas Government Code (the “Act”), and an order adopted by the Board on June 21, 2021 (the “Bond Order”). In the Bond Order, and as permitted by the Act, the Board has authorized certain District representatives to execute a pricing certificate (the “Pricing Certificate” and together with the Bond Order, the “Order”) effectuating the sale of the Bonds. The Pricing Certificate was executed by a duly authorized District representative on June 24, 2021.

**SECURITY AND SOURCE OF PAYMENT . . .** All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds (see “AD VALOREM PROPERTY TAXATION – I&S Tax Rate Limitations” herein).

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

**TAX RATE LIMITATION . . .** For debt service of unlimited tax debt, there is no limitation on the tax rate (Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended); provided, however, with respect to “new debt”, the District must demonstrate to the Attorney General of Texas the ability to pay all such “new debt” with a debt service tax not to exceed \$0.50 per \$100 assessed valuation in compliance with Section 45.0031, Texas Education Code, as amended. The Bonds are refunding bonds issued pursuant to the Act and are not “new debt” and are, therefore, not subject to the \$0.50 threshold tax rate test (however, the Bonds will be included in future debt service calculations to demonstrate \$0.50 test compliance for “new debt”). For a more detailed description of the \$0.50 test, and the exceptions therefrom (see “AD VALOREM PROPERTY TAXATION – I&S Tax Rate Limitations” herein).

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to stated maturity.

**AMENDMENTS . . .** The District, may, without the consent of or notice to any holders of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District may, with the written consent of holders of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; provided, however, that, without the consent of all holders of outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) reduce the principal amount or Maturity Amount thereof, the redemption price, or the rate of interest or yield to maturity thereon, or in any other way modify the terms of payment of the principal of and interest on the Current Interest Bonds or the Maturity Amount of the Capital Appreciation Bonds; (3) give any preference to any Bond over any other Bond, or (4) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

**DEFEASANCE . . .** The District reserves the right to defease, refund or discharge the Bonds in any manner now or hereafter permitted by law. Upon defeasance of the Bonds, the Bonds will no longer be guaranteed by the Permanent School Fund of the State.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section 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 accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, Underwriters, and Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (defined herein), (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 (defined herein), 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). One fully-registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, 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 the 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in 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 DTC Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bonds will 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 DTC 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.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriters.

***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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions are authorized to close, then the date for such payment will be 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 date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System," above.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the owners of the Bonds, and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer or exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond or Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. New Bonds registered and delivered in an exchange or

transfer shall be in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See “THE BONDS – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or portion thereof called for redemption prior to maturity within 45 days prior to its redemption date.

**REPLACEMENT BONDS . . .** If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon presentation and surrender of such mutilated Bond to the Paying Agent/Registrar. The District or the Paying Agent/Registrar may require the owner to pay all expenses and charges in connection therewith. 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 once the owner (a) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond, (b) furnishes security or indemnity as may be required by the Paying Agent/Registrar and the District, (c) pays all expenses and charges in connection therewith and (d) satisfies any other reasonable requirements imposed by the District and the Paying Agent/Registrar.

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

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 from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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

**SOURCES AND USES OF FUNDS . . .** The proceeds from the sale of the Bonds and other funds made available by the District will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 17,430,000.00
Reoffering Premium	3,991,497.65
District Contribution	<u>478,797.50</u>
Total Sources of Funds	<u>\$21,900,295.15</u>
Uses of Funds:	
Deposit to Escrow Fund	\$21,666,457.49
Total Underwriters' Discount	86,187.50
Costs of Issuance	<u>147,650.16</u>
Total Uses of Funds	<u>\$21,900,295.15</u>

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## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Texas Permanent School Fund and the Guarantee Program for school district bonds has been provided by the TEA (defined below) and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor, or the Underwriters.

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 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. 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 payout 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 SDBG 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 SDBG 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 "CDBG Rules"). The CDBG Rules are codified at 19 TAC section 33.67, and are available at <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67>.

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

**2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM . . .** The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 6.15% in March 2020. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However,



the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve Fund contained \$43,875,326, which represented approximately 1.69% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it is held and invested as a non-commingled fund under the administration of the PSF staff.

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

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

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

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

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

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

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

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

#### *TEA Continuity of Operations*

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under "The School District Bond Guarantee Program," the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

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

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA's guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented "hold harmless" funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at <https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance>.

**RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM . . .** Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "OTHER INFORMATION - Ratings" herein.

#### **VALUATION OF THE PSF AND GUARANTEED BONDS . . .**

##### **Permanent School Fund Valuations**

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2016	\$30,128,037,903	\$ 37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020 <sup>(2)</sup>	36,642,000,738	46,764,059,745

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

<sup>(2)</sup> At August 31, 2020, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At October 31, 2020, the

PSF had a book value of \$37,040,181,304 and a market value of \$46,902,584,511. October 31, 2020 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
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>**

<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
<u>Fiscal</u> <u>Year Ended</u> <u>8/31</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount</u>
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, 2019 . . .** The following discussion is derived from the Annual Report for the year ended August 31, 2020, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the liquidity account, Liquid (SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was \$46.7 billion, an increase of \$0.2 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid (SBOE). The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were -12.27%, 2.49%, and 5.15%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2020, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation Protected Securities, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2020, totaled \$2.0 billion in real estate investments and \$2.4 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2020, the remaining commitments totaled approximately \$2.73 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, under-performing the benchmark index of 8.54% by approximately 104 basis points. The Liquid (SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid (SBOE) asset classes produced an investment return, net of fees, of 2.35%, out-performing the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2.0 billion, a decrease of \$1.7 billion from fiscal year 2019 earnings of \$3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 5.6% for the fiscal year ending August 31, 2020. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2019 and 2020, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled \$300 and \$600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed \$90.3 billion in bonds issued by 872 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,789 school district and charter district bond issues totaling \$202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.9 billion or 7.0%. The State Capacity Limit increased by \$4.7 billion, or 3.8%, during fiscal year 2020 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2020 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

**2011 AND 2019 CONSTITUTIONAL AMENDMENTS . . .** On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund,

and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a 2.974% Distribution Rate equating to \$2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of \$92.2 million. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB to transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021. In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of \$875 million for the biennium.

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

The constitutional amendments approved on November 8, 2011 also provided authority to the GLO or another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO or SLB was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

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

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

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

As of August 31, 2020, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

**PSF CONTINUING DISCLOSURE UNDERTAKING . . .** The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

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

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

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

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

**EVENT NOTICES . . .** The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting

financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

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

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

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

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

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

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

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal., 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.”

## **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 “AD VALOREM PROPERTY TAXATION” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. The Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021 for the State’s 87th Legislative Regular Session. Legislation passed during the 87th Legislative Regular Session may have an impact on the District.*



**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 "AD VALOREM PROPERTY TAXATION – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

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

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

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

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

**Tier One Tax Rate.** 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 "AD VALOREM PROPERTY TAXATION – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to \$0.93 for the 2019-2020 school year, or equal to the school district's MCR for the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

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

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

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

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

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

For the State fiscal year ending 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 (96<sup>th</sup>) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately \$0.138 per \$100 taxable value for the 2019-2020 school year.

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

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

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

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

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

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

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

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

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

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

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

**2021 Legislative Session.** The 87th Texas Legislature convened on January 12, 2021. The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor’s direction, each lasting no more than 30 days, and for which the Governor sets the agenda.

During the legislative session, the Legislature will consider a general appropriations act and may consider legislation affecting the Finance System and ad valorem taxation procedures affecting school districts, among other legislation affecting school districts and the administrative agencies that oversee school districts. Reductions in state revenues due to the Pandemic and declines in oil and gas prices may impact the Finance System. At this time, the District cannot predict the level of State funding that will be provided by the Legislature for the upcoming biennium. The District can make no representations or predictions regarding any actions the Legislature may take during the 87th Texas Legislative Session concerning the substance or the effect of any legislation that may be passed during this session or a future session of the Legislature.

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

For the 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 permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district’s “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, voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

### AD VALOREM PROPERTY TAXATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM PROPERTY TAXATION – District Application of Tax Code"

**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.

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 "AD VALOREM PROPERTY TAXATION – Public Hearing and Voter-Approval Tax Rate"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

**LEVY AND COLLECTION OF TAXES.** . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

**M&O TAX RATE LIMITATIONS . . .** The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on June 3, 2000 in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

For the 2020 and subsequent tax years, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "AD VALOREM PROPERTY TAXATION – 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 "AD VALOREM PROPERTY TAXATION – Public Hearing and Voter-Approval Tax Rate" herein).

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code ("Chapter 1207"), 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 refunding bonds issued under Chapter 1207 and are, therefore, not subject to the 50-cent Test. The District has not used projected property values to satisfy this threshold test.

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

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

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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current



year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

**NOVEMBER 6, 2007 TAX RATIFICATION ELECTION . . .** On August 20, 2007, the District adopted an ad valorem tax rate of \$1.405 (consisting of \$1.17 for maintenance and operations and \$0.235 for debt service) for the 2007–2008 fiscal year. State law requires a district to conduct an election for district voters' approval for the assessment of such a tax rate above \$1.04. The District held this required election on November 6, 2007, in which District voters approved the increased tax rate by a margin of 666 "for" to 607 "against".

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

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest <sup>(b)</sup>	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	27 <sup>(a)</sup>	6	33

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.

(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

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 taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has 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. 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. The ability of the District to collect delinquent taxes by foreclosure 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.**

**DISTRICT APPLICATION OF TAX CODE . . .** The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$25,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The District does not tax nonbusiness personal property; and Bexar County collects taxes for the District.

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

The District does tax freeport property.

The District does not tax goods-in-transit.

The District has not adopted a tax abatement policy.

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

2020/21 Market Valuation Established by Bexar Appraisal District (excluding totally exempt property)		\$ 2,767,449,347
Less Exemptions/Reductions at 100% Market Value:		
Capped Value Loss	\$ 159,356,003	
Disabled Veterans and Disabled Persons	18,040,419	
Over 65/Disabled Homestead	89,069,228	
Residential Homestead Exemption	217,421,740	
Leased Vehicles	2,537,400	
Productivity Loss	2,168,250	
Pollution Control	138,893	
Community Housing Development	4,631,520	
Low Income Housing	5,368,760	
Exempt	384,995,984	
Other	110,361	
Value Lost to Freeze Adjustments	<u>162,034,541</u>	<u>1,045,873,099</u>
2020/21 Taxable Assessed Valuation		\$ 1,721,576,248
Debt Payable from Ad Valorem Taxes as of April 30, 2021		
Unlimited Tax School Building Bonds <sup>(1)</sup>	\$ 29,635,000	
The Bonds	<u>17,430,000</u>	
Debt Payable from Ad Valorem Taxes		\$ 47,065,000
Less: Instructional Facilities Allotment <sup>(2)</sup>		11,766,262
Less: Existing Debt Allotment <sup>(2)</sup>		<u>7,092,213</u>
Net Debt Payable from Ad Valorem Taxes		\$ 28,206,525
Interest and Sinking Fund as of April 30, 2021		\$ 7,154,141
Ratio of Net Tax Supported Debt to Taxable Assessed Valuation		1.64%
2021 Estimated Population - 41,919		
Per Capita Taxable Assessed Valuation - \$41,069		
Per Capita Net Debt Payable from Ad Valorem Taxes - \$673		

(1) Excludes the District's Limited Tax Debt, which is payable from the District's maintenance and operations tax. Also, excludes the Refunded Bonds.

(2) Excludes \$11,766,262 or 40.069% of certain of the District's currently outstanding unlimited tax bonds which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and \$7,092,213 or 40.069% of certain of the District's currently outstanding unlimited tax bonds, including the Bonds, which are supported by the Texas Education Agency's Existing Debt Allotment program as provided by Chapter 46, Texas Education Code, as amended.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended June 30 <sup>(1)</sup> ,					
	2021		2020		2019	
Real, Residential, Single-Family	\$ 1,411,961,445	51.02%	\$ 1,191,367,342	54.39%	\$ 1,057,577,288	50.82%
Real, Residential, Multi-Family	115,746,538	4.18%	104,272,783	4.76%	93,114,412	4.47%
Real, Vacant Lots/Tracts	44,907,059	1.62%	42,017,063	1.92%	38,866,330	1.87%
Real, Acreage (Land Only)	2,220,320	0.08%	2,382,800	0.11%	2,350,870	0.11%
Real, Farm and Ranch Improvements	1,614,830	0.06%	1,558,241	0.07%	1,663,290	0.08%
Real, Commercial	396,600,205	14.33%	378,922,058	17.30%	371,619,411	17.86%
Real, Industrial	47,552,481	1.72%	45,337,465	2.07%	42,816,048	2.06%
Real and Tangible Personal, Utilities	8,642,052	0.31%	8,842,041	0.40%	8,759,455	0.42%
Tangible Personal, Commercial	278,700,225	10.07%	221,500,295	10.11%	221,344,479	10.64%
Tangible Personal, Industrial	50,340,478	1.82%	44,197,098	2.02%	42,365,248	2.04%
Tangible Personal, Mobile Homes	794,010	0.03%	790,020	0.04%	763,800	0.04%
Special Inventory	7,521,160	0.27%	2,711,820	0.12%	3,308,420	0.16%
Real Property, Inventory	3,269,530	0.12%	771,847	0.04%	283,174	0.01%
Exempt	397,579,014	14.37%	145,608,048	6.65%	196,190,514	9.43%
Total Appraised Value Before Exemptions	\$ 2,767,449,347	100.00%	\$ 2,190,278,921	100.00%	\$ 2,081,022,739	100.00%
Less: Total Exemptions/Reductions	1,045,873,099		697,260,899		690,530,343	
Taxable Assessed Value	<u>\$ 1,721,576,248</u>		<u>\$ 1,493,018,022</u>		<u>\$ 1,390,492,396</u>	

Category	Taxable Appraised Value for Fiscal Year Ended June 30 <sup>(1)</sup> ,			
	2018		2017	
Real, Residential, Single-Family	\$ 941,208,579	49.76%	\$ 861,744,488	49.82%
Real, Residential, Multi-Family	87,667,150	4.63%	84,617,920	4.89%
Real, Vacant Lots/Tracts	35,397,487	1.87%	29,053,472	1.68%
Real, Acreage (Land Only)	2,115,710	0.11%	2,128,910	0.12%
Real, Farm and Ranch Improvements	1,661,590	0.09%	1,336,350	0.08%
Real, Commercial	354,632,633	18.75%	328,845,452	19.01%
Real, Industrial	39,506,457	2.09%	37,208,184	2.15%
Real and Tangible Personal, Utilities	8,128,673	0.43%	7,891,174	0.46%
Tangible Personal, Commercial	209,757,619	11.09%	192,957,866	11.16%
Tangible Personal, Industrial	34,908,300	1.85%	35,307,883	2.04%
Tangible Personal, Mobile Homes	664,670	0.04%	770,860	0.04%
Special Inventory	3,035,110	0.16%	2,799,770	0.16%
Real Property, Inventory	-	0.00%	-	0.00%
Exempt	172,894,638	9.14%	145,063,245	8.39%
Total Appraised Value Before Exemptions	\$ 1,891,578,616	100.00%	\$ 1,729,725,574	100.00%
Less: Total Exemptions/Reductions	617,054,045		561,188,671	
Taxable Assessed Value	<u>\$ 1,274,524,571</u>		<u>\$ 1,168,536,903</u>	

(1) The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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

Fiscal Year Ended 6/30 <sup>(1)</sup>	Estimated District Population <sup>(2)</sup>	Taxable Assessed Valuation <sup>(3)</sup>	Per Capita Taxable Assessed Valuation	Net Tax Supported Debt Outstanding at End of Year <sup>(4)</sup>	Ratio of Net Tax Supported Debt to Taxable Assessed Valuation	Per Capita Net Tax Supported Debt
2017	54,273	\$ 1,168,536,903	\$ 21,531	\$ 19,096,312	1.63%	\$ 352
2018	51,262	1,274,524,571	24,863	21,395,130	1.68%	417
2019	50,546	1,390,492,396	27,509	21,913,567	1.58%	434
2020	45,191	1,493,018,022	33,038	26,912,743	1.80%	596
2021	41,919	1,721,576,248	41,069	28,206,525 <sup>(5)</sup>	1.64% <sup>(5)</sup>	673 <sup>(5)</sup>

- (1) For years ended 2017 through 2018, the fiscal year end was August 31. The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.
- (2) Source: Municipal Advisory Council of Texas.
- (3) Source: Bexar Appraisal District's Certified Totals, subject to change during the ensuing year.
- (4) Excludes the District's Limited Tax Debt, which is payable from the District's maintenance and operations tax.
- (5) Includes the Bonds and excludes the Refunded Bonds. Also, excludes \$11,766,262 or 40.069% of certain of the District's currently outstanding unlimited tax bonds (as shown below) which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and \$7,092,213 or 40.069% of certain of the District's currently outstanding unlimited tax bonds, including the Bonds, (as shown below) which are supported by the Texas Education Agency's Existing Debt Allotment program as provided by Chapter 46, Texas Education Code, as amended.

**Estimated Instructional Facilities Allotment Bonds**

Series	Principal		State Portion	District Portion
2011	\$ 1,955,000	40.069%	\$ 783,349	\$ 1,171,651
2013	26,790,000	40.069%	10,734,485	16,055,515
2014	620,000	40.069%	248,428	371,572
Total	<u>\$ 29,365,000</u>		<u>\$ 11,766,262</u>	<u>\$ 17,598,738</u>

**Estimated Tier III (Existing Debt) Allotment Bonds**

Series	Principal		State Portion	District Portion
2009	\$ 270,000	40.069%	\$ 108,186	\$ 161,814
The Bonds	17,430,000	40.069%	6,984,027	10,445,973
	<u>\$ 17,700,000</u>		<u>\$ 7,092,213</u>	<u>\$ 10,607,787</u>

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

Fiscal Year Ended 6/30 <sup>(1)</sup>	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		Local Maintenance	Interest and Sinking Fund			
2017	\$ 1.35590	\$ 1.17000	\$ 0.18590	\$ 16,001,332	94.52%	97.96%
2018	1.38518	1.17000	0.21518	17,830,190	93.15%	95.66%
2019	1.37724	1.17000	0.20724	19,471,865	93.27%	96.90%
2020	1.29827	1.06835	0.22992	19,775,211	90.77%	97.12%
2021	1.26132	1.03140	0.22992	21,714,586	88.00% <sup>(2)</sup>	91.69% <sup>(2)</sup>

- (1) For years ended 2017 through 2018, the fiscal year end was August 31. The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.
- (2) As of April 30, 2021.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2020/21 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Southern Glazers Wine and Spirits of Texas LLC	Distributors	\$ 64,697,860	3.76%
Silver Eagle Distributors LP	Distributors	50,213,510	2.92%
Glazer Investments Inc	Distributors	34,724,270	2.02%
GE Company	Commercial	26,316,272	1.53%
Standard Aero	Distributors	24,628,482	1.43%
TCP Las Palmas Partners LTD	Commercial - Properties	24,198,110	1.41%
Bay Valley Foods LLC	Distributors	23,944,070	1.39%
NBY Properties LLC	Retail	19,377,300	1.13%
Glazers Beer and Beverage of Texas LLC	Distributors	16,591,780	0.96%
Indo- Mim Inc.	Manufacturing	14,582,900	0.85%
		<u>\$ 299,274,554</u>	<u>17.38%</u>

**TAX-SUPPORTED DEBT LIMITATION** . . . Section 45.0031, Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding “new debt” of the district, from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account State allotments to the district which effectively reduce the district’s local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. The Bonds are issued as refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the \$0.50 tax rate test (however, the Bonds will be included in future debt service calculations to demonstrate compliance for “new debt”).

**TABLE 6 - TAX ADEQUACY<sup>(1)</sup>**

Principal and Interest Requirements, 2021	\$ 6,529,121
Estimated Instructional Facilities Allotment/Existing Debt Allotment	2,607,668
Transfer from Interest & Sinking Fund	<u>240,282</u>
Net Principal and Interest Requirements, 2021	\$ 3,681,171
\$0.22992 Tax Rate at 93% Collection Produces	\$ 3,681,171
Maximum Annual Principal and Interest Requirements, 2021	\$ 6,529,121
Estimated Instructional Facilities Allotment/Existing Debt Allotment	2,607,668
Transfer from Interest & Sinking Fund	<u>240,282</u>
Net Maximum Annual Principal and Interest Requirements, 2021	\$ 3,681,171
\$0.22992 Tax Rate at 93% Collection Produces	\$ 3,681,171

(1) Excludes the District’s Limited Tax Debt, which is payable from the District’s maintenance and operations tax.

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**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2020/2021 Taxable Assessed Value	2020/2021 Tax Rate	Total Tax Supported Debt As of 4/30/2021	Estimated % Applicable	District's Overlapping Tax Supported Debt As of 4/30/2021	Authorized But Unissued Debt As Of 4/30/2021
Edgewood Independent School District	\$ 1,721,576,248	\$ 1.2613	\$ 28,206,525 <sup>(1)</sup>	100.00%	\$ 28,206,525 <sup>(1)</sup>	\$ -
Alamo Community College District	186,455,022,211	0.1492	398,965,000	1.26%	5,026,959	277,000,000
Bexar County	182,629,182,936	0.3011	1,944,900,000	1.26%	24,505,740	61,265,887
Bexar County Hospital District	188,459,827,861	0.2763	902,130,000	1.26%	11,366,838	-
San Antonio, City of	127,708,051,299	0.5583	2,088,040,000	1.76%	<u>36,749,504</u>	331,010,000
Total Direct and Overlapping Tax Supported Debt					<u>\$ 105,855,566</u>	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					6.15%	
Per Capita Overlapping Tax Supported Debt (Estimated 2021 population - 41,919)					\$ 2,525	

- (1) Excludes the District's Limited Tax Debt, which is payable from the District's maintenance and operations tax. Includes the Bonds and excludes the Refunded Bonds. Also, excludes \$11,766,262 or 40.069% of certain of the District's currently outstanding unlimited tax bonds which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and \$7,092,213 or 40.069% of certain of the District's currently outstanding unlimited tax bonds, including the Bonds, which are supported by the Texas Education Agency's Existing Debt Allotment program as provided by Chapter 46, Texas Education Code, as amended.

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## DEBT INFORMATION

**TABLE 8 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Period Ending 8/31 <sup>(1)</sup>	Outstanding Debt Service <sup>(2)</sup>			The Bonds			Total Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2021	\$ 4,150,000	\$ 2,379,121	\$ 6,529,121	\$ -	\$ -	\$ -	\$ 6,529,121	
2022	1,905,000	1,250,618	3,155,618	1,630,000	946,546	2,576,546	5,732,164	
2023	2,000,000	1,159,236	3,159,236	1,435,000	790,000	2,225,000	5,384,236	
2024	1,775,000	1,068,057	2,843,057	1,500,000	718,250	2,218,250	5,061,307	
2025	1,765,000	979,581	2,744,581	1,585,000	643,250	2,228,250	4,972,831	36.02%
2026	1,855,000	889,081	2,744,081	1,660,000	564,000	2,224,000	4,968,081	
2027	1,935,000	810,053	2,745,053	1,740,000	481,000	2,221,000	4,966,053	
2028	2,015,000	727,025	2,742,025	1,830,000	394,000	2,224,000	4,966,025	
2029	2,120,000	623,650	2,743,650	1,915,000	302,500	2,217,500	4,961,150	
2030	2,230,000	514,900	2,744,900	2,015,000	206,750	2,221,750	4,966,650	75.23%
2031	2,345,000	400,525	2,745,525	2,120,000	106,000	2,226,000	4,971,525	
2032	2,465,000	280,275	2,745,275	-	-	-	2,745,275	
2033	2,580,000	164,470	2,744,470	-	-	-	2,744,470	
2034	2,690,000	55,145	2,745,145	-	-	-	2,745,145	100.00%
	<u>\$ 31,830,000</u>	<u>\$ 11,301,737</u>	<u>\$ 43,131,737</u>	<u>\$ 17,430,000</u>	<u>\$ 5,152,296</u>	<u>\$ 22,582,296</u>	<u>\$ 65,714,033</u>	

(1) The District's fiscal year end is June 30. Debt service requirements are presented on a period ending August 31 basis to conform to the District's manner of setting their tax rate.

(2) Excludes the District's Limited Tax Debt, which is payable from the District's maintenance and operations tax and excludes the Refunded Bonds.



**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION<sup>(1)</sup>**

Estimated Debt Service Requirements, Period Ending August 31, 2021 <sup>(2)</sup>		\$ 6,529,121
Interest and Sinking Fund, June 30, 2020	\$ 6,991,630	
\$0.22992 Tax Rate at 93% Collection Produces <sup>(3)</sup>	3,681,171	
Estimated State Funds	<u>2,607,668</u>	<u>\$ 13,280,469</u>
Estimated Balance, June 30, 2021		<u>\$ 6,751,348</u>

- (1) Includes the Bonds and excludes the Refunded Bonds. Also excludes the District's Limited Tax Debt, which is payable from the District's maintenance and operations tax.
- (2) The District's fiscal year end is June 30. Debt service requirements are presented on a period ending August 31 basis to conform to the District's manner of setting their tax rate.
- (3) Based on a \$1,721,576,248 Net Taxable Value in 2020-2021.

**TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

The District has no authorized but unissued debt. The District may, however, incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . .** The District may issue additional unlimited tax refunding bonds to refund portions of the District's currently outstanding indebtedness in order to achieve debt service savings.

**TABLE 11- OTHER OBLIGATIONS**

On December 14, 2017, the District delivered its \$11,500,000 Limited Maintenance Tax Qualified Energy Conservation Notes, Taxable Series 2017 (Direct-Pay Subsidy Notes) (hereinafter defined as the "Series 2017 Maintenance Tax Notes") to provide funds for certain capital maintenance items to District facilities. The Series 2017 Maintenance Tax Notes are permitted to receive directly from the U.S. Treasury a subsidy payment (the "Subsidy Payment") equal to, as of any interest payment date, 70% of the amount of interest which would have been payable on the Series 2017 Maintenance Tax Notes if such interest were at the applicable credit rate determined under Section 54(b)(3) of the Internal Revenue Code. The maximum credit rate applicable to the Notes is 4.060% per annum and the coupon on the Notes is 3.762% per annum. An amortization schedule for the Series 2017 Maintenance Tax Notes is provided as follows:

Period Ending 8/31 <sup>(1)</sup>	Outstanding Debt Service		
	Principal	Interest <sup>(2)</sup>	Total
2021	\$ -	\$ 432,630	\$ 432,630
2022	-	432,630	432,630
2023	-	432,630	432,630
2024	-	432,630	432,630
2025	-	432,630	432,630
2026	-	432,630	432,630
2027	-	432,630	432,630
2028	-	432,630	432,630
2029	-	432,630	432,630
2030	-	432,630	432,630
2031	-	432,630	432,630
2032	11,500,000	432,630	11,932,630
	<u>\$ 11,500,000</u>	<u>\$ 5,191,560</u>	<u>\$ 16,691,560</u>

- (1) The District's fiscal year end is June 30. The Series 2017 Maintenance Tax Notes' debt service requirements are presented on a period ending August 31 basis to conform to the District's manner of setting their tax rate.
- (2) Interest shown at the coupon rate and without offset of the subsidy payment expected to be received by the District.

On September 1, 2018, the District entered into a master lease/purchase agreement (the lease in the amount of \$1,403,446 with 4.85% incurred interest with Dell Financial Services, LLC (lessor) for the lease of information technology equipment. The agreement meets the definition of a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments at the date of inception. The agreement is payable over 3 years with annual payments of \$490,154 with a final maturity date of September 2020. The District acquired equipment totaling \$1,403,446, and since ownership of the equipment transfers to the District at the end of the lease term, it is included in capital assets in the amount of \$1,403,446 as property under capital lease. The related amortization is included in accumulated depreciation/amortization in the amount of \$194,923 in property under capital lease.

On August 5, 2018, the District entered into a master lease/purchase agreement (the lease) in the amount of \$286,108 with 4.438% incurred interest with CTWP Digital Solutions for the lease of information technology equipment. The lease meets the definition of a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments of \$286,108 at the date of inception. The agreement is payable from the District's General Fund over 3 years with monthly payments of \$8,503. The final maturity date is July 30, 2021. Ownership of the equipment transfers to the District at the end of the lease term, therefore, it is included in capital assets in the amount of \$286,108 as property under capital lease. At June 30, 2020 the related amortization is included as accumulated depreciation/amortization in the amount of \$95,369 in property under capital lease.

On December 1, 2016, the District entered into two master lease/purchase agreement (agreement) in the amount of \$158,263 and \$108,411 totaling \$266,674 with 6.83% incurred interest with Dell Financial Services, LLC (lessor) for the lease of information technology equipment (equipment). The agreement meets the definition of a capital lease for accounting purpose; therefore, was recorded at the present value of the future minimum lease payments at the date of inception. The agreement is payable from the District's General Fund over 5 years with monthly payments of \$35,969 and \$24,638 with final maturity date of December 2020. The District acquired equipment totaling \$266,674, and since ownership of the equipment transfers to the District at the end of the lease term, it is included in capital assets in the amount of \$266,674 as property under capital lease. The related amortization is included in accumulated depreciation/amortization in the amount of \$53,335 in property under capital lease

The schedule changes for the master lease/ purchase agreement is as follows:

Description	Purpose	Interest Rate Payable	Final Maturity	Amount Original Issue	Amount Outstanding 7/1/2019	Additions	Retired	Amount Outstanding 6/30/2020	Due Within One Year
Dell Financial Services LLC	IT Equip	4.85%	2021	\$ 1,403,446	\$ 913,292	\$ -	\$ (445,827)	\$ 467,465	\$ 467,465
Dell Financial Services LLC	IT Equip	6.83%	2021	266,674	109,834	-	(53,102)	56,732	56,731
CTWP	IT Equip	4.44%	2022	286,108	202,685	-	(94,956)	107,729	99,257
					<u>\$ 1,225,811</u>	<u>\$ -</u>	<u>\$ (593,885)</u>	<u>\$ 631,926</u>	<u>\$ 623,453</u>

The following is a schedule of the future minimum lease payments for the master lease/ purchase agreement together with the present value of the net minimum lease payments at June 30, 2020.

For The Year Ended August 31,	Amount
2021	\$ 652,797
2022	<u>8,503</u>
Total Minimum Lease Payments	661,300
Less: Amount Representing Interest	<u>(29,374)</u>
Present Value of Minimum Lease Payments	<u>\$ 631,926</u>

**PENSION FUND AND OTHER POST EMPLOYMENT RETIREMENT BENEFITS . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "TRS"). The individual employees contribute a fixed amount of their salary to the TRS, currently 7.7%, and the State of Texas contributes funds to the TRS based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the District's Annual Financial Report" – Note H.)

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 TRS. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. For the fiscal year ended June 30, 2020, the State contributed \$2,948,368 to TRS-Care, District employees paid \$491,860, and other contributions to the plan made from private grants and from the District were \$709,121.

At June 30, 2020, the District reported a liability of \$48,760,809 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective OPEB liability:	\$ 48,760,809
State's proportionate share that is associated with the District:	<u>64,792,210</u>
Total:	\$ 113,553,019

The net OPEB liability was measured as of August 31, 2018 and rolled forward to August 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District'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 0.1031075227% which was an increase of 0.0020573150% from its proportion measured as of August 31, 2018. (For more detailed information concerning other postemployment benefits, see APPENDIX B, "Excerpts from the District's Annual Financial Report" - Note I.)

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## FINANCIAL INFORMATION

**TABLE 12 - CHANGES IN NET ASSETS**

	Fiscal Year Ended <sup>(1)</sup>				
	6/30/2020	6/30/2019	8/31/2018	8/31/2017	8/31/2016
<u>Program Revenues:</u>					
Charges for Services	\$ 1,618,969	\$ 1,685,879	\$ 1,685,326	\$ 1,802,173	\$ 1,746,261
Operating Grants & Contributions	39,225,045	34,375,345	11,834,777	30,624,560	31,957,432
<u>General Revenues:</u>					
Property Taxes	18,426,521	18,624,346	17,179,084	15,824,078	13,295,071
Grants and Contributions Not Restricted	73,977,371	71,032,038	77,925,584	78,987,754	89,447,922
Miscellaneous	130,253	918,561	608,656	258,216	192,469
Investment Earnings	1,084,140	1,281,296	1,065,918	490,256	476,612
Extraordinary Item	586,205	-	-	2,559,483	-
Total Revenues	<u>\$ 135,048,504</u>	<u>\$ 127,917,465</u>	<u>\$ 110,299,345</u>	<u>\$ - \$ 130,546,520</u>	<u>\$ 137,115,767</u>
<u>Expenses:</u>					
Instruction	\$ 73,643,853	\$ 59,443,683	\$ 43,287,823	\$ 65,282,173	\$ 72,876,429
Instructional Resources & Media Services	1,379,081	1,284,743	1,122,231	1,676,128	1,760,072
Curriculum & Staff Development	7,751,086	6,896,529	5,466,388	4,499,863	3,957,263
Instructional Leadership	3,809,609	2,727,944	2,110,442	2,816,406	2,732,139
School Leadership	8,176,913	7,295,499	4,770,735	7,158,692	7,387,303
Guidance & Counseling Services	4,644,446	3,937,339	2,698,812	3,880,698	4,159,358
Social Work Services	1,211,509	1,097,142	875,582	1,322,629	1,174,039
Health Services	1,408,435	1,197,186	1,002,997	1,448,748	1,632,720
Student Transportation (Pupil)	2,441,110	2,167,757	1,688,805	2,164,852	2,113,915
Food Services	8,679,829	6,872,495	8,644,269	9,320,128	9,555,824
Curricular/Extracurricular Activities	4,207,393	3,890,246	3,514,922	4,375,821	4,479,772
General Administration	3,924,922	3,640,915	2,946,582	3,778,094	4,136,464
Plant Maintenance & Operations	13,356,082	10,586,384	10,475,483	12,447,288	12,594,793
Security & Monitoring Services	2,274,664	1,863,376	1,502,754	2,575,935	2,477,029
Data Processing Services	3,105,430	2,337,040	3,473,845	3,941,707	4,729,337
Community Services	805,821	852,737	518,665	783,784	606,652
Debt Service - Interest on Long Term Debt	2,965,344	2,268,579	2,947,992	2,789,768	2,895,238
Debt Service - Bond Issuance Cost & Fees	1,563	1,970	213,566	800	801
Payments to Shared Services Arrangements	77,749	32,845	94,709	83,109	83,109
Payments to Juvenile Justice Alt. Ed. Program	9,917	-	-	13,313	19,019
Other Intergovernmental Charges	126,785	101,748	122,619	109,817	105,458
Total Expenses	<u>\$ 144,001,541</u>	<u>\$ 118,496,157</u>	<u>\$ 97,479,221</u>	<u>\$ - \$ 130,469,753</u>	<u>\$ 139,476,734</u>
Increase (Decrease) in Net Assets					
Expenditures	\$ (8,953,037)	\$ 9,421,308	\$ 12,820,124	\$ - \$ 76,767	\$ (2,360,967)
Beginning Net Assets	56,201,330	46,780,022 <sup>(3)</sup>	114,383,113	- 114,306,346	116,667,313
Prior Period Adjustment	1,424,241 <sup>(2)</sup>		(80,423,216) <sup>(4)</sup>	-	-
Ending Net Assets	<u>\$ 48,672,534</u>	<u>\$ 56,201,330</u>	<u>\$ 46,780,021</u>	<u>\$ 114,383,113</u>	<u>\$ 114,306,346</u>

- (1) The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.
- (2) The District had recorded unearned revenue for an EFA payment that came in several fiscal years ago. The District was concerned that the money would eventually have to be given back to the Texas Education Agency. Due to the concern, they put the balance of that revenue in unearned revenue. In FY 20, it was apparent that the money was the District's and therefore, an addition to fund balance in the debt service fund of \$904,840 was made. The District also had understated the balance of claims and estimated claims payable in the Worker's Compensation Internal Service Fund. The effect of correcting that was to decrease net position in the internal service fund by \$426,484. In FY 2019, the District switched from an August 31 year-end to a June 30 year-end. In FY 19, the District recognized 12 months of depreciation instead of 10 months. The effect of correcting that was an increase to net position of \$945,885.
- (3) Restated.
- (4) During fiscal year 2018, the District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB Statement No. 75, the District must assume their proportionate share of the Net Postemployment Benefits Other Than Pensions (OPEB) Liability of the Teachers Retirement System of Texas. Adoption of the GASB Statement required a prior period adjustment of \$80,423,216 to retroactively report the effect.

**TABLE 12-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended <sup>(1)</sup>				
	6/30/2020	6/30/2019	8/31/2018	8/31/2017	8/31/2016
<u>Revenues:</u>					
Local and Intermediate Sources	\$ 18,747,604	\$ 19,269,026	\$ 17,926,153	\$ 15,965,817	\$ 14,050,473
State Sources	77,639,355	70,113,020	78,036,558	78,760,820	86,540,364
Federal Sources	12,076,373	11,061,114	12,023,069	12,468,360	12,356,978
Total Revenues	<u>\$ 108,463,332</u>	<u>\$ 100,443,160</u>	<u>\$ 107,985,780</u>	<u>\$ 107,194,997</u>	<u>\$ 112,947,815</u>
<u>Expenditures:</u>					
Instruction	\$ 54,668,356	\$ 43,574,108	\$ 51,803,329	\$ 52,731,938	\$ 54,298,486
Instruction Administration	2,832,628	2,234,092	1,226,080	1,388,803	2,086,406
Instructional Resources and Media	1,005,605	994,267	3,679,592	1,239,817	1,408,524
School Administration	6,463,237	5,890,240	2,770,784	2,341,351	6,010,170
Curriculum/Personal Development	1,852,771	1,295,644	6,420,477	6,222,691	870,064
Guidance and Counseling Services	4,049,152	3,527,408	4,061,140	3,672,543	3,620,652
Attendance and Social Work Services	1,045,945	962,918	1,322,852	1,257,807	1,079,984
Health Services	1,168,955	1,012,547	1,434,644	1,328,043	1,425,165
Pupil Transportation	1,909,917	1,942,083	1,855,118	1,699,255	1,710,912
Co-Curricular Activities	2,491,814	2,631,313	2,897,138	3,210,033	3,190,684
Food Services	7,474,180	6,097,467	8,354,260	8,498,130	8,481,864
General Administration	4,429,522	3,376,850	4,101,294	3,719,709	3,618,202
Debt Services	595,936	363,022	571,497	60,607	305,837
Plant Maintenance and Operations	11,388,148	9,588,930	12,035,082	11,563,778	11,004,324
Security and Monitoring Services	2,071,170	1,703,753	2,327,181	2,513,603	2,237,562
Facilities Acquisition and Construction	2,641,476	3,204,600	8,152,036	2,031,699	6,749,685
Data Processing Services	2,847,127	2,009,342	3,933,623	3,723,202	4,226,452
Community Services	171,083	147,936	39,843	47,824	31,974
Intergovernmental Charges	136,702	101,748	122,619	123,130	124,477
Total Expenditures	<u>\$ 109,243,724</u>	<u>\$ 90,658,268</u>	<u>\$ 117,108,589</u>	<u>\$ 107,373,963</u>	<u>\$ 112,481,424</u>
<u>Other Sources and Uses</u>					
Other Sources	\$ 609,355	\$ 26,102	\$ 11,786,108	\$ (873,216)	\$ (4,000,000)
Other Uses	-	-	-	-	-
Total Other Sources (Uses)	<u>\$ 609,355</u>	<u>\$ 26,102</u>	<u>\$ 11,786,108</u>	<u>\$ (873,216)</u>	<u>\$ (4,000,000)</u>
<u>Extraordinary Items</u>					
Extraordinary Item- Resource	\$ -	\$ -	\$ -	\$ 2,559,483	\$ -
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(171,037)</u>	<u>9,810,994</u>	<u>2,663,299</u>	<u>1,507,301</u>	<u>(3,533,609)</u>
Fund Balance - September 1 (Beginning)	\$ 50,063,797	\$ 40,252,803	\$ 37,589,504	\$ 36,082,203	\$ 39,615,812
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Fund Balance on June 30 <sup>(2)</sup>	<u>\$ 49,892,760</u>	<u>\$ 50,063,797</u>	<u>\$ 40,252,803</u>	<u>\$ 37,589,504</u>	<u>\$ 36,082,203</u>

(1) The District changed its fiscal year end from August 31 to June 30 beginning with the period ended June 30, 2019.

(2) The District estimates the Ending Balance for Fiscal Year 2021 to be approximately \$47,500,000.

## FINANCIAL POLICIES

*Financial Administration* . . . The District is a separate political subdivision governed by applicable laws of the State of Texas. Pursuant to State law, the seven-member Board of Trustees adopts policies, sets directions for curriculum, employs the Superintendent, and oversees the operations of the District and its schools. The Superintendent and the District's staff assist the Board in budget preparation, financial record keeping, and auditing. The Board is responsible for setting the tax rate, setting salary schedules, and adopting and amending the annual budget.

*Budget Procedures* . . . The District's fiscal year begins July 1 and ends June 30. The annual budget is initially prepared under the direction of the District's Superintendent. The Board of Trustees reviews the budget in June and generally approves the final budget and sets the District's tax rate in late August or early September of each year.

*Basis of Accounting* . . . The accounting system for school districts in Texas is codified in the Texas Education Agency Resource Guide, which creates a 20-digit account structure and requires budgetary control through fund-based accounting that conforms to generally accepted accounting principles as applicable to governmental units. For further information regarding the accounting policies of the District see Note I to the District's Annual Financial Report for the year ended June 30, 2020, set forth at Appendix B hereto.

*Cash Management* . . . The District's deposits and investments are required by law to either be insured by federal depository insurance or collateralized. The District invests school money pursuant to the authority of the Texas Public Funds Investment Act and the Texas School Depository Act.

## INVESTMENTS

The District may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the governing body of the District. Both State law and the District's investment policies are subject to change.

### Authorized Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described 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 the 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 Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), 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), Texas Government Code, 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 as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, 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 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.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) 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 or resolution.

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

### **Investment Policies**

Under 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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the

ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the governing body of the District.

### Additional Provisions

Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 13 - CURRENT INVESTMENTS<sup>(1)</sup>**

As of April 30, 2021 the District's investable funds were invested in the following categories:

Description	% of Portfolio	Book Value
Lonestar	72.46%	\$ 48,912,072
Texas Class	27.54%	18,586,355
Totals	100.00%	\$ 67,498,427

As of such date, 100% of the District's investment portfolio will mature within 12 months. The market value of the investment portfolio was approximately 100% of its purchase price. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

(1) Unaudited.

### TAX MATTERS

**TAX EXEMPTION** . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code which affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriters, with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an



opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

**ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS . . . *Collateral Tax Consequences*** Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

***Tax Accounting Treatment of Original Issue Premium*** The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

**TAX LEGISLATIVE CHANGES . . .** Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement 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 timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available from the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org). See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of specified material events related to the guarantee to the MSRB.

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables numbered 1 through 6 and 8 through 13 and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes 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 June 30. Accordingly, it must provide updated information by December 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

The District has entered into an agreement for continuing disclosure services with FSC Continuing Disclosure Services, a Division of Hilltop Securities Inc. to assist the District in fulfilling its obligations pursuant to the Rule.

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

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

**AVAILABILITY OF INFORMATION . . .** The SEC implemented amendments to the Rule which approved the establishment by the MSRB of Electronic Municipal Market Access (“EMMA”) which is now the sole national municipal securities information repository. All information and documentation filing required to be made by the District pursuant to the Rule will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the

primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** In 2019, the District changed its fiscal year end from August 31 to June 30. Due to an administrative oversight, certain annual financial information was not timely filed with EMMA for fiscal year ending June 30, 2019. All information has since been filed, including a notice of late filing. The District has implemented procedures to ensure timely filing of all future financial information and has complied in all other material respects with all continuing disclosure agreements made by it in accordance with the Rule during the past five years. For information related to the District's compliance with its prior undertakings, see [www.emma.msrb.org](http://www.emma.msrb.org).

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding unlimited tax-supported debt of the District is rated "A1" by Moody's Investor Services, Inc. (Moody's) without regard to credit enhancement. The District also has three unlimited tax-supported issues outstanding, excluding the Bonds, which are rated "Aaa" by Moody's by virtue of the guarantee of the Texas Permanent School Fund (see "OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District has one unlimited tax-supported issue and one limited tax-supported issue that are not additionally secured through the Permanent School Fund Guarantee Program. The District has received conditional approval from the TEA for the payment of the Bonds to be guaranteed by the corpus of the Texas Permanent School Fund. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

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

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that 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 said Bonds.

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

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, 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 INFORMATION - Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of at least one

million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. 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.

## **LEGAL MATTERS**

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

Though it represents the Underwriters and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "PLAN OF FINANCING – Refunded Bonds", "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only-System", "Bondholders' Remedies", and "Sources and Uses of Funds", as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "AD VALOREM PROPERTY TAXATION – I & S Tax Rate Limitations" (first paragraph only), "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the second paragraph thereof), and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by its legal counsel Locke Lord LLP, Austin, Texas, whose fee is contingent on the sale and delivery of the Bonds.

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

## **FINANCIAL ADVISOR**

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

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the prices indicated on page 2 hereof, less an underwriting discount of \$86,187.50, and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

RBC Capital Markets, LLC ("RBCCM") and its affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. RBCCM and its affiliates may make a market in credit default swaps with respect to municipal securities in the future. RBCCM and its affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

#### **MISCELLANEOUS**

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

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

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

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/s/ MARTHA CASTILLA  
President, Board of Trustees  
Edgewood Independent School District

ATTEST:

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/s/ JOSEPH M. GUERRA  
Secretary, Board of Trustees  
Edgewood Independent School District

## SCHEDULE OF REFUNDED BONDS

## Unlimited Tax Refunding Bonds, Series 2011

Original Dated Date	Maturity (August 15)	Interest Rate	Amount
June 1, 2011	2022	4.000%	\$ 2,035,000
	2023	5.000%	1,765,000
	2024	4.000%	1,850,000
	2025	4.000%	1,930,000
	2026	5.000%	2,005,000
	2027	5.000%	2,100,000
	2028	5.000%	2,210,000
	2029	5.000%	2,315,000
	2030	4.100%	2,435,000
	2031	4.150%	2,540,000
			<u>\$ 21,185,000</u>

These Refunded Bonds are to be called for redemption on August 16, 2021.

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## **APPENDIX A**

### GENERAL INFORMATION REGARDING THE DISTRICT

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## GENERAL INFORMATION REGARDING THE DISTRICT

### THE DISTRICT

The District is a residential and commercial area located within the corporate limits of the City of San Antonio, but does not contain the entire city. The District encompasses some 19.31 square miles and has an estimated 2021 population of 41,919. The District is located in the southwestern portion of Bexar County and is traversed by U.S. Highway 90, which provides easy access to all major freeways.

### ENROLLMENT AND FACILITIES

The school facilities currently provided by the District include 12 elementary schools (EE-5), 3 middle schools (6-8), 3 high schools (9-12), 2 early childhood centers (Early Education/PK) and 1 alternative centers (4-12).

For the 2020/21 school year, the District employs a staff of approximately 1,500 which includes a professional staff of approximately 950. Education status of the teachers and administrators is as follows:

Master's degree	60%
Bachelor's degree	40%
Average years of classroom experience per teacher	7 Years

Personnel distribution is as follows:

District level administrators	14
Building level administrators	33
Instructional staff	800
Professional support staff (counselors, librarians, nurses, etc.)	140
General personnel (secretaries, aides, clerks, bus drivers, etc.)	401
Maintenance/custodial	112

Teacher salaries are competitive with surrounding districts. Teacher salaries range from \$53,000 (BA), \$54,200 (MA), for beginning teachers to a maximum of \$64,790 (BA), \$65,990 (MA).

Teacher/pupil ratios for 2020/21 are:

Elementary School	22/1
Middle School	26/1
High School	26/1

Historical enrollment for the District is as follows:

<u>School Year</u>	<u>Enrollment<sup>(1)</sup></u>	<u>School Year</u>	<u>Enrollment<sup>(1)</sup></u>
1993-94	14,886	2004-05	10,166
1994-95	14,883	2005-06	12,075
1995-96	14,776	2006-07	11,916
1996-97	14,551	2007-08	11,783
1997-98	14,177	2008-09	11,644
1998-99	13,323	2009-10	12,392
1999-00	12,982	2010-11	11,947
2000-01	13,101	2011-12	11,863
2001-02	13,279	2012-13	11,937
2002-03	13,164	2013-14	11,997
2003-04	12,894	2014-15	11,621
2004-05	10,166	2015-16	11,735
2005-06	12,075	2016-17	11,292
2006-07	11,916	2017-18	10,881
2007-08	11,783	2018-19	10,471
2008-09	11,644	2019-20	10,234
2009-10	12,392	2020-21	9,152 <sup>(2)</sup>

(1) Source: School District officials and the Texas School Directory.

(2) As of October 2020.

## BEXAR COUNTY

The County was organized in 1836 as one of the original counties of the Republic of Texas and is now the fourth most populous of the 254 counties in the State. The County has an area of approximately 1,248 square miles and is located in south central Texas and is a component of the San Antonio-New Braunfels MSA. The principal city within the County is San Antonio, which is the county seat.

The diversified economic base of the County is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. The County's proximity to Mexico provides favorable conditions for international business relations with the country in the areas of agriculture, tourism, manufacturing, wholesale and retail markets. Industry ranges from the manufacturing of apparel, food products, aircraft, electronics and pharmaceuticals to iron and steel products and oil well equipment. San Antonio is a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United Services Automobile Association.

### LABOR FORCE STATISTICS FOR BEXAR COUNTY<sup>(1)</sup>

	2021 <sup>(2)</sup>	2020 <sup>(3)</sup>	2019 <sup>(3)</sup>	2018 <sup>(3)</sup>	2017 <sup>(3)</sup>
Civilian Labor Force	954,802	942,127	943,335	935,933	924,065
Total Employed	899,702	871,017	913,638	904,406	891,138
Total Unemployed	55,100	71,110	29,697	31,527	32,927
Unemployment Rate	5.8%	7.5%	3.1%	3.4%	3.6%
% Unemployed (Texas)	6.3%	7.6%	3.5%	3.9%	4.3%
% Unemployed (U.S.)	5.7%	8.1%	3.7%	3.9%	4.4%

(1) Source: Texas Employment Commission.

(2) As of April 2021.

(3) Average annual statistics.

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**APPENDIX B**

EXCERPTS FROM THE  
EDGEWOOD INDEPENDENT SCHOOL DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2020

The information contained in this Appendix consists of excerpts from the Edgewood Independent School District Comprehensive Annual Financial Report for the Year Ended June 30, 2020, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete report for further information.

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Edgewood Independent School District  
San Antonio, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Edgewood Independent School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Edgewood Independent School District's basic financial statements as listed in the table of contents.

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

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

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

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque

## **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 Edgewood Independent School District, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Edgewood Independent School District's basic financial statements. The combining nonmajor fund financial statements, required TEA schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2021, on our consideration of Edgewood Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Edgewood Independent School District's internal control over financial reporting and compliance.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
January 19, 2021



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As Management of Edgewood Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020. This information is not intended to be a complete statement of the District's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The assets plus deferred outflows of resources of the District exceeded its liabilities plus deferred inflows of resources at the close of the fiscal year ended June 30, 2020 by \$48,672,534 (net position).
- The General Fund balance at June 30, 2020 decreased by (\$171,037) to \$49,892,760 primarily due to COVID 19 pandemic expenditures. The General Fund consists of the financial transactions associated with the Food Service program, SB 1882 partnerships, after school programs, and the general maintenance and operations of the District.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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 other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements**

The statement of net position includes all of the District's assets, deferred outflows (inflows) of resources and liabilities. All of the current period's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the District's net position and how they have changed. Net position is the difference between the District's assets, deferred outflows (inflows) of resources and liabilities and are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. To assess overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base, staffing patterns, enrollment and attendance.

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

### **FUND FINANCIAL STATEMENTS**

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

Some funds are required by state law and other funds are mandated by bond agreements or bond covenants. The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants. Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District but the District is responsible to properly account for them.

The District reports the following types of funds:

**Governmental Funds** – Most of the District’s basic services are included in governmental funds, which focus on 1) how *cash and other financial assets* that can readily be converted to cash flow in and out; and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

**Proprietary Funds** – Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses. We use *internal service funds* to report activities that provide supplies and services for the District’s other programs and activities — such as the District’s self-insured Workers’ Compensation Fund.

**Fiduciary Funds** – Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its governmental operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District’s net position was \$48,672,534 at June 30, 2020. Table 1 focuses on the net position while Table 2 shows the revenues and expenses that changed the net position balance during the year ended June 30, 2020.

**TABLE 1**  
**EDGEWOOD INDEPENDENT**  
**SCHOOL DISTRICT**  
**NET POSITION**

	Governmental Activities		Change	Percentage Change
	2020	2019		
Current and other assets	\$ 84,992,663	\$ 85,432,065	\$ ( 439,402)	( 0.51%)
Capital assets	152,996,217	159,665,123	( 6,668,906)	( 4.18%)
Total assets	237,988,880	245,097,188	( 7,108,308)	( 2.90%)
Total deferred outflows	27,950,875	26,923,952	1,026,923	3.81%
Other liabilities	20,756,036	22,040,029	( 1,283,993)	( 5.83%)
Long-term liabilities	164,506,961	170,902,004	( 6,395,043)	( 3.74%)
Total liabilities	185,262,997	192,942,033	( 7,679,036)	( 3.98%)
Total deferred inflows	32,004,224	22,877,777	9,126,447	39.89%
Net position:				
Net investment in				
capital assets	83,324,593	85,186,923	( 1,862,330)	( 2.19%)
Restricted	17,725,793	7,824,695	9,901,098	126.54%
Unrestricted	( 52,377,852)	( 36,810,288)	( 15,567,564)	42.29%
Total net position	\$ 48,672,534	\$ 56,201,330	\$ ( 7,528,796)	( 13.40%)

**TABLE 2**  
**EDGEWOOD INDEPENDENT**  
**SCHOOL DISTRICT**  
**CHANGES IN NET POSITION**

	Governmental Activities			Percentage
	2020	2019	Change	Change
<b>REVENUES</b>				
Program revenues:				
Charges for services	\$ 1,618,969	\$ 1,685,879	\$ ( 66,910)	( 3.97%)
Operating grants and contributions	39,225,045	34,375,345	4,849,700	14.11%
General revenues:				
Property taxes	18,426,521	18,624,346	( 197,825)	( 1.06%)
Grants and contributions not restricted	73,977,371	71,032,038	2,945,333	4.15%
Investment earnings	1,084,140	1,281,296	( 197,156)	( 15.39%)
Extraordinary item	586,205	-	586,205	100.00%
Other revenues	130,253	918,561	( 788,308)	( 85.82%)
Total revenues	<u>135,048,504</u>	<u>127,917,465</u>	<u>7,131,039</u>	<u>5.57%</u>
<b>EXPENSES</b>				
Instruction	73,643,853	59,443,683	14,200,170	23.89%
Instructional resources and media services	1,379,081	1,284,743	94,338	7.34%
Curriculum and staff development	7,751,086	6,896,529	854,557	12.39%
Instructional leadership	3,809,609	2,727,944	1,081,665	39.65%
School leadership	8,176,913	7,295,499	881,414	12.08%
Guidance and counseling	4,644,446	3,937,339	707,107	17.96%
Social work services	1,211,509	1,097,142	114,367	10.42%
Health services	1,408,435	1,197,186	211,249	17.65%
Student transportation	2,441,110	2,167,757	273,353	12.61%
Food services	8,679,829	6,872,495	1,807,334	26.30%
Extracurricular activities	4,207,393	3,890,246	317,147	8.15%
General administration	3,924,922	3,640,915	284,007	7.80%
Plant maintenance and operations	13,356,082	10,586,384	2,769,698	26.16%
Security and monitoring services	2,274,664	1,863,376	411,288	22.07%
Data processing services	3,105,430	2,337,040	768,390	32.88%
Community services	805,821	852,737	( 46,916)	( 5.50%)
Interest, issuance costs and fees on debt	2,966,907	2,270,549	696,358	30.67%
Payments to fiscal agent/member districts	77,749	32,845	44,904	136.71%
Payments to JJAEP	9,917	-	9,917	100.00%
Other governmental charges	126,785	101,748	25,037	24.61%
Total expenses	<u>144,001,541</u>	<u>118,496,157</u>	<u>25,505,384</u>	<u>21.52%</u>
<b>CHANGE IN NET POSITION</b>	<u>( 8,953,037)</u>	<u>9,421,308</u>	<u>( 18,374,345)</u>	<u>195.03%</u>
<b>NET POSITION, BEGINNING</b>	<u>56,201,330</u>	<u>46,780,022</u>	<u>9,421,308</u>	<u>20.14%</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>1,424,241</u>	<u>-</u>	<u>1,424,241</u>	<u>100.00%</u>
<b>NET POSITION, ENDING</b>	<u>\$ 48,672,534</u>	<u>\$ 56,201,330</u>	<u>\$ ( 7,528,796)</u>	<u>( 13.40%)</u>

**Governmental Activities**

The District's total revenues were \$135,048,504, an increase of \$7,131,039 from prior year. 13.64% of the District's revenues are received from property taxes, 54.78% are State Allocations from state aid, 29.05% from operating grants and contributions, and the remaining 2.10% comes from investment earnings, charges for services and other miscellaneous revenues. The total cost of all programs and services was \$144,001,541, an increase of \$25,505,384 or approximately 21.52% from the prior year.

Significant factors affecting the change in net position included:

- The property tax rate decreased from \$1.377242 to \$1.29827 to adhere to the new tax rate requirements imposed by HB 3. Total tax revenue reduced by 1.06%.
- Expenses increased \$25,505,384 million from the prior period. The most significant functional change was the increase in instructional costs of \$14,200,170.
- The District was required to report a liability for its proportionate share of TRS's net pension liability at year end in the amount of \$43,546,473 and net other post-employment benefit liability \$48,760,809.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At the close of the reporting period, June 30, 2020, the District's combined governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of \$56,937,108. This compares to a combined fund balance of \$55,943,036 at June 30, 2019. The General Fund is the major operating fund of the District set up to accomplish its educational goals and objectives, including all its support elements: Administration, Food Service, Maintenance, Security, and Transportation. The General Fund increased its fund balance a total of (\$171,037). The Debt Service Fund decreased its fund balance a total of \$260,269.

### **General Fund Budgetary Highlights**

In accordance with state law and generally accepted accounting standards, the District prepares an annual budget for the General Fund, the Food Service Special Revenue Fund, and for the Debt Service Fund. Special Revenue Funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended June 30, 2020, the District prepared and amended its budget as required by state law prudent operating procedures. The budget amendments can be characterized into three categories: Category 1 reflects adjustments for carryover appropriations because of commitments made against the budget for goods and services not received or incomplete as of June 30, 2020, Category 2 included an increase in estimated revenues and similar increases in the appropriations and Category 3 included all adjustment authorized by the Board of Managers throughout the year.

The District's Board of Managers is required by state law to formally adopt budgets for the General Fund, the Debt Service Fund and the Food Service (Special Revenue) Fund, and to amend those budgets as needed to avoid over expending any functional expenditure category. The District was in compliance with this requirement and, at the close of the fiscal year; all functional expenditure categories had positive budgetary variances. The General Fund had an overall positive budget variance of \$10,608,845, the Food Service Fund had a positive variance of \$1,435,754, and the Debt Service Fund had a positive variance of \$1,101.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Capital assets are generally defined as those items that have useful lives in excess of five years and have an initial cost or value (if donated) of \$5,000, an amount determined by the Board. The cost or acquisition value, less accumulated depreciation, of the District's capital assets is recorded and displayed in the government-wide financial statements but not in the fund financial statements. Depreciation is calculated using the straight-line method with estimated useful lives as recommended by the Comptroller of Public Accounts of the State of Texas.

At June 30, 2020, the District had a total of \$304,673,818 invested in capital assets (land, buildings, vehicles and equipment). Of this amount, the District invested a total of \$3,138,724 in the year ended June 30, 2020. For fiscal year 2020, a total of \$10,753,515 was charged as depreciation, and at June 30, 2020, the total accumulated depreciation in the District's depreciable assets totaled (\$151,677,601).

Table 3 summarizes the District's capital assets at June 30, 2020. More detailed information regarding the District's capital assets is presented in the Notes to the Financial Statements.

**TABLE 3**  
**EDGEWOOD INDEPENDENT**  
**SCHOOL DISTRICT'S**  
**CAPITAL ASSETS AND DEPRECIATION AT YEAR-END**

	Governmental Activities			Percentage
	2020	2019	Change	Change
Land and land improvements	\$ 3,887,442	\$ 3,887,442	\$ -	- %
Buildings and improvements	276,111,086	261,471,897	14,639,189	5.60%
Furniture and equipment	22,435,238	21,945,735	489,503	2.23%
Property under capital lease	1,956,228	1,956,228	-	- %
Construction in progress	283,824	12,273,792	( 11,989,968)	( 97.69%)
Accumulated depreciation	( 151,677,601)	( 141,869,971)	( 9,807,630)	6.91%
Total capital assets	\$ <u>152,996,217</u>	\$ <u>159,665,123</u>	\$ <u>( 6,668,906)</u>	( <u>82.95%</u> )

#### Long-term Debt

At June 30, 2019, the District had bond issues outstanding of which the unpaid principal totaled \$54,915,000. Table 4 summarizes the District's outstanding debt at June 30, 2020. More detailed information regarding the District's debt obligations is presented in the notes to the financial statements.

**TABLE 4**  
**EDGEWOOD INDEPENDENT**  
**SCHOOL DISTRICT'S**  
**ANALYSIS OF DEBT AT YEAR-END**

Description of Debt Outstanding	Governmental Activities		Changes	Percentage Change
	2020	2019		
Bonds payable	\$ 54,915,000	\$ 58,875,000	\$ ( 3,960,000)	( 6.73%)
Unamortized premium	3,948,682	4,201,371	( 252,689)	( 6.01%)
Notes payable	11,500,000	11,500,000	-	- %
Capital leases	631,926	1,225,811	( 593,885)	( 48.45%)
Claims payable	<u>1,204,071</u>	<u>551,383</u>	<u>652,688</u>	<u>118.37%</u>
Total long-term debt	\$ <u>72,199,679</u>	\$ <u>76,353,565</u>	\$ <u>( 4,153,886)</u>	( <u>5.44%</u> )

The "Claims Payable" amount is a result of the District's outstanding claims from the self-funded workers' compensation fund.

#### ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

The District is governed by a Board that is comprised of elected officials and Texas Education Agency (TEA) appointed members, all with ties to the Edgewood community. In June 2018, the Board approved the appointment of Dr. Eduardo Hernandez who officially started working in July 2018.

One major factor affecting the District is the continual decline in student enrollment. This is key because the state's funding formulas are currently set to fund District's based not only on enrollment but on attendance. Declining enrollment translates to a decrease in much needed funding for the District. The tax rate adopted for 2019-20 decreased to \$1.29827, with the maintenance and operations tax rate decreasing to \$1.06835 and the debt service rate increasing to \$.22992. The decreases in tax rate were based on legislative action, specifically House Bill 3 that required districts to compress their property taxes and moved to use current year values in order to determine state aid. Despite legislative changes, the Board adopted a balanced budget for the 2019-20 fiscal year. Under the guidance of the Superintendent, District staff continues to work diligently to reduce costs to ensure that we continue to adopt balanced budgets in future years. As such, the District has adopted strategies to reduce the overall expenditures and increase student attendance (and revenue) to address these challenges without disrupting the services that we provide to our students. As we planned for the 2019-20 fiscal year, we will continue to monitor the needs of the students and the District. As part of the process to reduce expenditures, we continue to practice the following strategies:

- Robust processes for the approval of large item purchases.
- Review of current contracted services.
- Refinement of staffing ratios and continued monitoring of positions.

Another major factor affecting the District's financial activities is the COVID 19 pandemic. To help with economic fallout from this pandemic, the federal government passed the CARES ACT making federal funds available to the district for COVID 19 allowable expenditures. The allowable expenditures included and are not limited to personal protective equipment, instructional materials and equipment, overtime salaries, and other goods and services needed by the students, employees, and community members of the district for COVID 19 related issues. For the 2019-2020 school year, a total of \$3,183,621 was expended in COVID 19 related expenditures. Through the CARES ACT, the district is estimating a 75% reimbursement of the total cost. For 2020-2021, the district is estimating COVID 19 related expenditures to exceed \$5 million.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If anyone has any questions about this report please contact the Office of the Chief Financial Officer, in the Edgewood Independent School District Administrative Office.

## **BASIC FINANCIAL STATEMENTS**

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## EDGEWOOD INDEPENDENT SCHOOL DISTRICT

## EXHIBIT A-1

## STATEMENT OF NET POSITION

JUNE 30, 2020

Data Control Codes	<b>ASSETS</b>	1 Primary Government Governmental Activities
1110	Cash and cash equivalents	\$ 70,104,584
1220	Property Taxes- Delinquent	4,058,637
1230	Allowance for uncollectible taxes	( 1,798,060)
1240	Due from other governments	12,185,037
1267	Due from fiduciary funds	51,603
1290	Other receivables (net)	326,917
1300	Inventories	42,127
1410	Prepayments	21,818
	Capital assets:	
1510	Land	3,887,442
1520	Buildings and improvements, net	144,731,148
1530	Furniture and equipment, net	3,091,807
1550	Capital lease assets, net	1,001,996
1580	Construction in progress	283,824
1000	Total assets	<u>237,988,880</u>
	<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701	Deferred charge for refunding	1,323,984
1705	Deferred outflow related to TRS pension	19,790,506
1706	Deferred outflow related to TRS OPEB	6,836,385
1700	Total deferred outflows of resources	<u>27,950,875</u>
	<b>LIABILITIES</b>	
2110	Accounts payable	3,286,529
2140	Interest payable	1,089,833
2150	Payroll deductions and withholdings	1,725,087
2160	Accrued wages	8,089,800
2180	Due to other governments	5,537,629
2190	Due to student groups	10,275
2200	Accrued expenditures or expenses	757,322
2300	Unearned revenue	259,561
	Noncurrent liabilities:	
2501	Due within one year	5,138,670
2502	Due in more than one year	67,061,009
2540	Net pension liability (proportionate share)	43,546,473
2545	Net OPEB liability (proportionate share)	48,760,809
2000	Total liabilities	<u>185,262,997</u>
	<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605	Deferred inflow related to pensions	8,785,998
2606	Deferred inflow related to other post-employment benefit	23,218,226
2600	Total deferred inflows of resources	<u>32,004,224</u>
	<b>NET POSITION</b>	
3200	Net investment in capital assets	83,324,593
	Restricted for:	
3820	Federal and state programs	2,941,330
3850	Debt service	6,159,507
3890	Other purposes	8,624,956
3900	Unrestricted	( 52,377,852)
3000	Total net position	<u>\$ 48,672,534</u>

The accompanying notes are an integral part of this financial statement.

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**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	Functions/Programs	1  Expenses	Program	Program	Net (Expenses)
			Revenues	Revenues	Revenue
			3	4	Changes in
					6
					Primary
					Government
					Governmental
					Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 73,643,853	\$ 1,035,439	\$ 15,968,615	\$( 56,639,799)
12	Instructional resources and media services	1,379,081	-	208,199	( 1,170,882)
13	Curriculum and staff development	7,751,086	-	5,417,117	( 2,333,969)
21	Instructional leadership	3,809,609	-	1,525,225	( 2,284,384)
23	School leadership	8,176,913	-	753,357	( 7,423,556)
31	Guidance, counseling, and evaluation services	4,644,446	-	706,037	( 3,938,409)
32	Social work services	1,211,509	-	177,503	( 1,034,006)
33	Health services	1,408,435	-	410,258	( 998,177)
34	Student transportation	2,441,110	-	324,353	( 2,116,757)
35	Food service	8,679,829	184,481	7,489,747	( 1,005,601)
36	Extracurricular activities	4,207,393	115,494	154,228	( 3,937,671)
41	General administration	3,924,922	-	382,574	( 3,542,348)
51	Facilities maintenance and operations	13,356,082	177,720	986,971	( 12,191,391)
52	Security and monitoring services	2,274,664	-	247,591	( 2,027,073)
53	Data processing services	3,105,430	-	152,897	( 2,952,533)
61	Community services	805,821	105,835	506,657	( 193,329)
72	Interest on long-term debt	2,965,344	-	3,735,967	770,623
73	Bond issuance costs and fees	1,563	-	-	( 1,563)
93	Payments related to shared services arrangements	77,749	-	77,749	-
95	Payments to JJAEP	9,917	-	-	( 9,917)
99	Other governmental changes	<u>126,785</u>	<u>-</u>	<u>-</u>	<u>( 126,785)</u>
TG	Total governmental activities	<u>\$ 144,001,541</u>	<u>\$ 1,618,969</u>	<u>\$ 39,225,045</u>	<u>\$( 103,157,527)</u>
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				\$ 16,127,282
DT	Property taxes, levied for debt service				2,299,239
GC	Grants and contributions not restricted to specific programs				73,977,371
IE	Investment earnings				1,084,140
	Extraordinaty item				586,205
MI	Miscellaneous				<u>130,253</u>
TR	Total general revenues				<u>94,204,490</u>
CN	Change in net position				( 8,953,037)
NB	Net position, beginning				<u>56,201,330</u>
PA	Prior period adjustments				<u>1,424,241</u>
NE	Net position, ending				\$ 48,672,534

The accompanying notes are an integral part of this financial statement.

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT C-1**

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2020

Data Control Codes		<u>General</u>	<u>Debt Service</u>
	<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 56,011,195	\$ 6,771,468
1220	Property taxes - delinquent	3,404,441	654,196
1230	Allowance for uncollectible taxes	( 1,523,633)	( 274,427)
1240	Due from other governments	8,962,058	-
1260	Due from other funds	2,951,492	189,273
1290	Other receivables	324,762	-
1300	Inventories	42,127	-
1410	Deferred expenditures	21,818	-
1000	Total assets	<u>70,194,260</u>	<u>7,340,510</u>
	<b>LIABILITIES</b>		
2110	Accounts payable	3,197,363	-
2150	Payroll deductions and withholdings	1,725,087	-
2160	Accrued wages	7,619,661	-
2170	Due to other funds	189,273	-
2180	Due to other governments	5,446,459	91,170
2190	Due to student groups	10,275	-
2200	Accrued expenditures	685,844	-
2300	Unearned revenue	4,886	-
2000	Total liabilities	<u>18,878,848</u>	<u>91,170</u>
	<b>DEFERRED INFLOWS OF RESOURCES</b>		
2600	Unavailable revenue - property taxes	<u>1,422,652</u>	<u>257,710</u>
	Total deferred inflows of resources	<u>1,422,652</u>	<u>257,710</u>
	<b>FUND BALANCES</b>		
	Nonspendable:		
3410	Inventories	42,127	-
3430	Prepaid items	21,818	-
	Restricted for:		
3450	Federal and state programs	2,935,734	-
3480	Retirement of long-term debt	-	6,991,630
3490	Other restricted fund balance	-	-
	Assigned for:		
3590	Other assigned fund balance	8,577,834	-
3600	Unassigned	<u>38,315,247</u>	<u>-</u>
		<u>49,892,760</u>	<u>6,991,630</u>
	Total liabilities, deferred inflows of		
4000	resources and fund balances	\$ <u>70,194,260</u>	\$ <u>7,340,510</u>

The accompanying notes are an integral part of this financial statement.

Major Special Revenue	Other Governmental	98 Total Governmental Funds
\$ 321,048	\$ 291,795	\$ 63,395,506
-	-	4,058,637
-	-	( 1,798,060)
1,235,889	1,987,090	12,185,037
-	-	3,140,765
260	1,644	326,666
-	-	42,127
-	-	21,818
<u>1,557,197</u>	<u>2,280,529</u>	<u>81,372,496</u>
61,400	27,596	3,286,359
-	-	1,725,087
260,109	210,030	8,089,800
1,193,738	1,705,982	3,088,993
-	-	5,537,629
-	-	10,275
41,950	29,528	757,322
-	254,675	259,561
<u>1,557,197</u>	<u>2,227,811</u>	<u>22,755,026</u>
-	-	1,680,362
<u>-</u>	<u>-</u>	<u>1,680,362</u>
-	-	42,127
-	-	21,818
-	5,596	2,941,330
-	-	6,991,630
-	47,122	47,122
-	-	8,577,834
-	-	38,315,247
<u>-</u>	<u>52,718</u>	<u>56,937,108</u>
\$ <u>1,557,197</u>	\$ <u>2,280,529</u>	\$ <u>81,372,496</u>

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**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT C-2****RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION****JUNE 30, 2020**

Total fund balances - governmental funds	\$ 56,937,108
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 in the funds.	152,996,217
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	1,680,362
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	( 69,671,624)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	( 1,089,833)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to pensions included a deferred resource outflow in the amount of \$19,790,506, a deferred resource inflow in the amount of \$8,785,998, and a net pension liability in the amount of \$43,546,473.	( 32,541,965)
Included in the items related to debt is the recognition of the District's proportionate share of the net other post-employment benefit (OPEB) liability required by GASB 75. The net position related to the OPEB included a deferred resource outflow in the amount of \$6,836,385, a deferred resource inflow in the amount of \$23,218,226, and a net OPEB liability in the amount of \$48,760,809.	( 65,142,650)
Internal Service Funds are used by management to charge the costs of certain activities, such as workers' compensation and medical insurance to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.	<u>5,504,919</u>
Net position of governmental activities	\$ <u>48,672,534</u>

# EDGEWOOD INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes		10	50	Major Special Revenue
		General	Debt Service	
<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 18,747,604	\$ 3,570,229	\$ -
5800	State programs	77,639,355	3,245,814	-
5900	Federal programs	12,076,373	-	6,037,258
5020	Total revenues	<u>108,463,332</u>	<u>6,816,043</u>	<u>6,037,258</u>
<b>EXPENDITURES</b>				
Current:				
0011	Instruction	54,668,356	-	1,585,651
0012	Instructional resources and media services	1,005,605	-	-
0013	Curriculum and staff development	1,852,771	-	3,477,109
0021	Instructional leadership	2,832,628	-	328,617
0023	School leadership	6,463,237	-	29,698
0031	Guidance, counseling, and evaluation services	4,049,152	-	88,061
0032	Social work services	1,045,945	-	66,000
0033	Health services	1,168,955	-	405
0034	Student transportation	1,909,917	-	-
0035	Food service	7,474,180	-	-
0036	Extracurricular activities	2,491,814	-	-
0041	General administration	4,429,522	-	-
0051	Facilities maintenance and operations	11,388,148	-	630
0052	Security and monitoring services	2,071,170	-	-
0053	Data processing services	2,847,127	-	-
0061	Community services	171,083	-	383,338
Debt service:				
0071	Principal on long-term debt	148,058	3,960,000	-
0072	Interest on long-term debt	447,215	2,594,874	-
0073	Other debt service fees	663	900	-
0081	Capital outlay	2,641,476	-	-
Intergovernmental:				
0093	Payments to fiscal agent/ member districts of SSA	-	-	77,749
0095	Payments to JJAEP	9,917	-	-
0099	Other intergovernmental charges	126,785	-	-
6030	Total expenditures	<u>109,243,724</u>	<u>6,555,774</u>	<u>6,037,258</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 780,392)</u>	<u>260,269</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
7912	Sale of real or personal property	23,150	-	-
7919	Extraordinary item	586,205	-	-
7080	Total other financing sources (uses)	<u>609,355</u>	<u>-</u>	<u>-</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>( 171,037)</u>	<u>260,269</u>	<u>-</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>50,063,797</u>	<u>5,826,521</u>	<u>-</u>
1300	<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>904,840</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 49,892,760</u>	<u>\$ 6,991,630</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.



Other Governmental	98 Total Governmental Funds
\$ 79,136	\$ 22,396,969
2,318,736	83,203,905
<u>7,856,411</u>	<u>25,970,042</u>
<u>10,254,283</u>	<u>131,570,916</u>
6,489,553	62,743,560
-	1,005,605
1,637,815	6,967,695
320,261	3,481,506
676,017	7,168,952
21,459	4,158,672
-	1,111,945
85,829	1,255,189
83,841	1,993,758
28,670	7,502,850
1,727	2,493,541
23,629	4,453,151
255,007	11,643,785
558	2,071,728
70	2,847,197
131,950	686,371
445,827	4,553,885
44,326	3,086,415
-	1,563
7,744	2,649,220
-	77,749
-	9,917
-	<u>126,785</u>
<u>10,254,283</u>	<u>132,091,039</u>
<u>-</u>	<u>( 520,123)</u>
-	23,150
-	<u>586,205</u>
-	<u>609,355</u>
-	89,232
<u>52,718</u>	<u>55,943,036</u>
-	<u>904,840</u>
<u>\$ 52,718</u>	<u>\$ 56,937,108</u>

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**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT C-4**

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds	\$ 89,232
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays 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 capital outlays exceeded depreciation in the current period.	( 7,614,790)
In the statement of activities, only the gain on the sale of the assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.	-
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	( 1,202,045)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	4,553,885
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of bond premium	252,689
Interest expense	( 131,618)
GASB 68 Required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$2,486,255. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$2,479,408. Finally, the proportionate share of pension expense on the plans as a whole had to be recorded. The net pension expense decreased the change in net position by \$5,438,826.	( 5,431,979)
GASB 75 Required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$592,552. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$587,574. Finally, the proportionate share of OPEB expense on the plans as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$431,366.	( 426,388)
Internal Service Funds are used by management to charge the costs of certain activities, such as workers' compensation and medical insurance to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities.	<u>957,977</u>
Change in net position of governmental activities	\$ <u>( 8,953,037)</u>

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT D-1**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

JUNE 30, 2020

	Governmental Activities <u>Internal Service Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 6,709,078
Other receivables	<u>251</u>
Total current assets	<u>6,709,329</u>
Noncurrent assets:	
Capital assets:	
Furniture and Equipment	71,977
Depreciation	<u>( 71,977)</u>
Total capital assets	<u>-</u>
Total assets	<u>6,709,329</u>
<b>LIABILITIES</b>	
Current liabilities:	
Short term debt payable	167,528
Due to other funds	169
Accrued expenses	<u>170</u>
Total current liabilities	<u>167,867</u>
Noncurrent liabilities:	
Other long-term debt - due in more than one year	<u>1,036,543</u>
Total noncurrent liabilities	<u>1,036,543</u>
Total liabilities	<u>1,204,410</u>
<b>NET POSITION</b>	
Unrestricted	<u>5,504,919</u>
Total net position	\$ <u>5,504,919</u>

The accompanying notes are an integral  
part of this financial statement.

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT D-2**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Activities <u>Internal Service Funds</u>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ <u>1,907,747</u>
Total operating revenues	<u>1,907,747</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	114,081
Professional and contracted services	831,134
Supplies and materials	24,036
Other operating costs	3,741
Depreciation expense	<u>10,843</u>
Total operating expenses	<u>983,835</u>
<b>OPERATING INCOME</b>	923,912
<b>NONOPERATING REVENUES</b>	
Earnings from temporary deposits and investments	<u>34,065</u>
Total nonoperating revenues	<u>34,065</u>
<b>CHANGE IN NET POSITION</b>	957,977
<b>NET POSITION, BEGINNING</b>	<u>4,973,426</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	( <u>426,484</u> )
<b>NET POSITION, ENDING</b>	\$ <u><u>5,504,919</u></u>

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT D-3**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Governmental Activities
	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 112,088
Cash received from assessments - other funds	1,795,659
Cash payments to employees for services	( 114,081)
Cash payments for insurance claims	219,852
Cash payments for suppliers	( 856,471)
Net cash used by operating activities	<u>1,157,047</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends on investments	<u>34,065</u>
Net cash provided by investing activities	<u>34,065</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	1,191,112
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>5,517,966</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>6,709,078</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating income	<u>497,428</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	<u>10,843</u>
Effects of increases and decreases in assets and liabilities:	
(Increase) decrease in accounts receivable	( 251)
Increase (decrease) in accounts payable	( 3,922)
Increase (decrease) in accrued wages payable	170
Increase (decrease) in interfund charges	91
Increase (decrease) in claims payable	<u>652,688</u>
Net cash used by operating activities	\$ <u>1,157,047</u>

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT E-1**

## STATEMENT OF FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

JUNE 30, 2020

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 283,685	\$ 488,136
Other receivables	-	15,222
Total assets	<u>283,685</u>	<u>503,358</u>
<b>LIABILITIES</b>		
Due to other funds	48,000	3,603
Due to other governments	-	115,894
Due to student groups	<u>71,000</u>	<u>383,861</u>
Total liabilities	<u>\$ 119,000</u>	<u>\$ 503,358</u>
<b>NET POSITION</b>		
Unrestricted net position	<u>164,685</u>	
Total net position	<u>\$ 164,685</u>	

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT E-2**STATEMENT OF CHANGES IN FIDUCIARY  
NET POSITION

## FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Private Purpose Trust Fund
<b>ADDITIONS</b>	
Local and intermediate sources	\$ 35,684
Total additions	35,684
<b>DEDUCTIONS</b>	
Other operating costs	122,684
Total deductions	122,684
<b>CHANGE IN NET POSITION</b>	( 87,000)
<b>NET POSITION, BEGINNING</b>	251,685
<b>NET POSITION, ENDING</b>	\$ 164,685



# EDGEWOOD INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Edgewood Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a five-member School Board of Managers (the "Board of Managers") appointed by the Texas Education Agency (TEA) in May, 2016. Since 2016 when the Board of Managers were appointed, TEA has allowed publicly elected Board members to jointly govern the District with the remaining Board of Managers for the fiscal year ended June 30, 2019. Collectively, the seven-member board is now considered the School Board (the "Board"). The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 76 *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*. Additionally, the District complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide"), and the requirements of contracts and grants of agencies from which it receives funds.

#### A. Reporting Entity

The Board has the authority to make decisions, appoint administrators and managers, significantly influence operations; and, has primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, *"The Financial Reporting Entity"* and as amended in GASB Statement No. 61, *"The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34,"* and accordingly, is not included in any other governmental reporting entity.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and intergovernmental revenue.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include 1) fees, fines, and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Any fund balances are considered resources available for current operations. Major revenue sources include local property taxes, State funding under the Foundation School Program, the National School Lunch and Breakfast Programs and investment earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the Federal or State government, debt service, and capital projects.

The **Title I Special Revenue Fund** is used to account for the specific purpose of the Every Student Succeeds Act (ESSA) Title I program. A federal grant program passed through the Texas Education Agency (TEA).

The **Debt Service Fund** accounts for resources accumulated and payments made for principal and interest in long-term general obligation debt of governmental funds.

In addition, the District reports the following fund types:

**Governmental Funds:**

**Special Revenue Funds** account for the resources entitled to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in Special Revenue Funds, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

**Capital Projects Funds** account for the proceeds from long-term debt financing to be used for authorized expenditures related to major capital acquisitions or construction activities.

**Proprietary Funds:**

**Internal Service Funds** are used to account for the District's Self-Funded Health Claims Program, the Self-Funded Workers' Compensation Program, and the Print Shop. Financing is provided by charges to and contributions from the District's General and Special Revenue Funds.

**Fiduciary Funds:**

The **Private-Purpose Trust Fund** accounts for scholarship resources held in trust for others where the principal and interest benefit the District or its students and former students.

**Agency Funds** account for resources held for others in a custodial capacity by the District and consists of student activity funds that are the property of the various student clubs and associations.

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

Government-wide, proprietary, and private-purpose trust fund financial statements are reported using the economic resources measurement focus. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenue available if it is collectible within 30 days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

### **D. Assets, Liabilities Deferred Outflows/Inflows of Resources and Net Position or Fund Balance**

#### **Cash and cash equivalents**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

#### **Investments**

The District reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Under the provisions of GASB Statement No. 31, "governmental entities, including governmental external investment pools should report investments at fair value in the balance sheet". Investment income includes unrealized gains and losses (representing the change in fair value) and is reported as revenues in the operating statement. Under the provisions of GASB No. 31, investments may be reported at amortized cost if the remaining maturity at time of purchase is one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Accordingly, the District's investments in local government investment pools are reported at amortized cost and do not include any unrealized gains and losses.

#### **Property Taxes**

Property taxes are levied by October 1st on the assessed value listed as of the prior January 1st for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1st of each year following the year in which imposed. On January 31st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Board set maintenance and debt service tax rates of \$1.0684 and \$0.2299, respectively, per \$100 of assessed valuation. The Bexar County Tax Assessor's Office bills and collects the taxes for the District. The assessed values are established by the Bexar County Appraisal District.

Property taxes are measurable when levied and are considered available to be recorded as revenue if collectible within the current period or soon enough thereafter (within 60 days). The delinquent taxes collected in July and August 2020 net of refunds have been accrued consistent with the modified accrual basis of accounting. Property taxes receivable less the provision for uncollectible taxes are recorded as deferred inflows of resources unavailable revenue – property taxes.

Current tax collections for the year ended June 30, 2020 were 91% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Since the District is prohibited from writing off real property taxes receivable without specific statutory authority from the Texas Legislature, the District makes no provision for uncollectible real property taxes. The allowance for uncollectible taxes represents an estimate by the District of those personal property taxes receivable which will be written off as uncollectible in the future.

### **Inventories**

Inventories of supplies and materials are accounted for under the consumption method. This method recognizes supplies and material expenditures at the time they are requisitioned from the District's warehouse. Inventories available at the balance sheet date are recorded at cost while inventories of food commodities are recorded at market values supplied by the USDA and are offset with unearned revenues. When requisitioned, inventory and unearned revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount. Cost is determined principally by the weighted average cost method.

### **Prepayments**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both the government-wide and fund financial statements. The prepayment is relieved using the consumption method.

### **Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, equipment, and property under capital lease are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of five years. Such assets, except for E-Rate acquisitions, are recorded at historical cost or estimated historical cost if purchased or constructed. E-Rate acquisitions are recorded at discounted cost. Donated assets are valued at acquisition cost, which is the price that would have been paid to acquire an asset with equivalent service potential on the date of acquisition.

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

Buildings, building improvements, and equipment of the District are depreciated and property under capital lease is amortized using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Building improvements	20-30
Furniture & equipment / property under capital lease	5-20

## **Compensated Absences**

The District adopts the State of Texas minimum personal leave program which consists of five days per year of personal leave with no limit in accumulation and no restrictions on transferability among school districts for District employees. The District provides an additional five days of local personal leave per year not to exceed a cumulative amount of 30 days. Since the District is unable to estimate how much leave will be used, no liability has been recorded in the financial statements.

## **Interfund Activity**

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

## **Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

## **Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. It is deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension and other post-employment benefit (OPEB) liabilities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability and other post-employment benefit (OPEB) liabilities. These items are reported in the government-wide statement of net position.

## **Pensions**

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

## **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.

## **Net Position**

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

## **Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and 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 assumption must be made about the order in which the resources are considered applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **Fund Balance**

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (the School Board).
- **Assigned:** used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

All commitments are to be approved by formal action by the Board prior to fiscal year-end, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent. Assignments may occur subsequent to fiscal year-end.

The assigned fund balance in the general fund represents proceeds from a legal settlement to be used to remediate the Roosevelt and Las Palmas Elementary School campuses.

### **Fund Balance Flow Assumption**

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

### **Use of Estimates**

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

### **Data Control Codes**

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

## **II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

### **A. Deposits and Investments**

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

### **Cash Deposits**

Cash and cash equivalents of \$70,104,584 are comprised of the following:

	General Fund	Debt Service Fund	Major Special Revenue Fund	Other Funds	Total	Proprietary Funds	Grand Total
Cash and Cash Equivalents:							
Demand accounts	\$ (5,531,884)	\$ 52,929	\$ 321,048	\$ 291,795	\$ (4,866,112)	\$ 6,709,078	\$ 1,842,966
Cash on hand	2,590	-	-	-	2,590	-	2,590
Investment pools	61,540,489	6,718,539	-	-	68,259,028	-	68,259,028
	<u>\$ 56,011,195</u>	<u>\$ 6,771,468</u>	<u>\$ 321,048</u>	<u>\$ 291,795</u>	<u>\$ 63,395,506</u>	<u>\$ 6,709,078</u>	<u>70,104,584</u>

## Deposits

The District's funds are required to be deposited under the terms of a depository contract or invested under the terms of the Public Funds Investment Act (PFIA). The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the depository bank's Federal Deposit Insurance Corporation (FDIC) coverage. Deposits were held with the contracted depository bank in demand and in interest bearing accounts. Deposits were secured at the balance sheet date by FDIC coverage and pledged U.S. Government securities held by the Bank of New York Mellon in the District's name. Funds were properly secured at all times during the year.

The following is disclosed regarding coverage of combined balances on the date of highest deposit:

- Name of Contracted Depository Bank: Wells Fargo Bank
- The highest combined balances of cash, savings, and time deposit accounts at the Wells Fargo Bank was \$4,122,394 and occurred during December 2019.
- The total amount of FDIC coverage at the time of largest combined balance was \$250,000.
- The amount of securities pledged as of the date of the highest combined balance on deposit was \$16,312,084.

At June 30, 2020, the net carrying amount of the District's deposits was \$1,645,118 and the bank balance was \$1,960,966. The District's cash deposits at June 30, 2020 and during the year then ended were entirely covered by FDIC insurance or by pledge collateral held by the District's agent bank in the District's name.

The fiduciary funds report the following balances as of June 30, 2020:

	<u>Fiduciary Funds</u>	<u>Agency Funds</u>	
	<u>Private Purpose Trust</u>	<u>Student Activity Funds</u>	<u>Total</u>
Cash and Cash Equivalents:			
Demand accounts	\$ 283,685	\$ (290,375)	\$ (6,690)
Investment pools	<u>-</u>	<u>778,511</u>	<u>778,511</u>
	<u>\$ 283,685</u>	<u>\$ 488,136</u>	<u>771,821</u>

## Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: 1) safety of principal and liquidity, 2) portfolio diversification, 3) allowable investments, 4) acceptable risk levels, 5) expected rates of return, 6) maximum allowable stated maturity of portfolio investments, 7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, 8) investment staff quality and capabilities, and 9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U. S. Treasury, U. S. agencies, and the State of Texas; 2) certificates of deposit; 3) certain municipal securities; 4) securities lending program; 5) repurchase agreements; 6) bankers' acceptances; 7) mutual funds; 8) investment pools; 9) guaranteed investment contracts; and 10) commercial paper.



The following are investments the District held as of year-end:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Rating</u>	<u>Rating Agency</u>
Lone Star	\$ 50,672,138	43	AAAm	S & P
Texas CLASS	<u>18,556,557</u>	64	AAAm	S & P
Total	<u>\$ 69,228,695</u>			

Interest Rate Risk — This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the District's policy, one of the ways the District manages its exposure to interest rate risk is by investing in investment pools which have no stated maturity date; therefore, the funds are always available to meet operational needs.

Credit Risk — This is the risk that a security issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the District's investment policy and the Act and the actual rating as of June 30, 2020 for each investment.

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

GASB Statement No. 72 – GASB Statement No. 72, *Fair Value Measurement and Application* requires that governments disclose information about fair value measurements, the level of fair value hierarchy, and valuation techniques for investments held by the government. GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

Because the District's investments are restricted by policy and State law to active secondary markets, the market approach is used for valuation. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

As of June 30, 2020, the District's investments are reported at amortized cost in accordance with GASB Statement No. 31 and GASB Statement No. 72.

## Public Funds Investment Pools

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

### B. Due From Other Governments

The District participates in a variety of local, state, and federal programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation Program, the Per Capita Program, the Instructional Facilities Allotment (IFA), and the Existing Debt Allotment (EDA) Program. Amounts due from state and federal governments as of June 30, 2020 are summarized below.

	General Fund	Major Fund Title I	Other Funds	Total
State entitlements and grants	\$ 7,200,561	\$ -	\$ 692,770	\$ 7,893,331
Federal grants	1,761,497	1,235,889	1,294,320	4,291,706
Local governments	-	-	-	-
Total	<u>\$ 8,962,058</u>	<u>\$ 1,235,889</u>	<u>\$ 1,987,090</u>	<u>\$ 12,185,037</u>

### C. Capital Assets

Capital asset activity for the period ended June 30, 2020 was as follows:

	Beginning Balance 6/30/19	Increases	Decreases and Reclassifications	Ending Balance 6/30/20
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 3,887,442	\$ -	\$ -	\$ 3,887,442
Construction in progress	<u>12,273,792</u>	<u>200,528</u>	<u>( 12,190,496)</u>	<u>283,824</u>
Total capital assets, not being depreciated	<u>16,161,234</u>	<u>200,528</u>	<u>( 12,190,496)</u>	<u>4,171,266</u>
Capital assets, being depreciated:				
Buildings and improvements	261,471,897	2,448,693	12,190,496	276,111,086
Furniture and equipment	21,945,735	489,504	-	22,435,239
Property under capital lease	<u>1,956,228</u>	<u>-</u>	<u>-</u>	<u>1,956,228</u>
Total capital assets, being depreciated	<u>285,373,860</u>	<u>2,938,197</u>	<u>12,190,496</u>	<u>300,502,553</u>
Less accumulated depreciation for:				
Buildings and improvements	( 123,827,917)	( 7,659,076)	107,055	( 131,379,938)
Furniture and equipment	( 17,601,588)	( 2,477,920)	736,076	( 19,343,432)
Property under capital lease	<u>( 440,466)</u>	<u>( 616,519)</u>	<u>102,753</u>	<u>( 954,232)</u>
Total accumulated depreciation	<u>( 141,869,971)</u>	<u>(10,753,515)</u>	<u>945,884</u>	<u>(151,677,602)</u>
Total capital assets, being depreciated, net	<u>143,503,889</u>	<u>( 7,815,318)</u>	<u>13,136,380</u>	<u>148,824,951</u>
Governmental activities capital assets, net	<u>\$ 159,665,123</u>	<u>\$ ( 7,614,790)</u>	<u>\$ 945,884</u>	<u>\$ 152,996,217</u>

Depreciation was charged to functions as follows:

Instruction	\$ 5,562,083
Instructional resources and media services	281,967
Curriculum and staff development	5,010
Instructional leadership	6,799
School leadership	256,905
Guidance, counseling and evaluation services	62,015
Social work services	1,521
Health services	36,151
Student transportation	443,627
Food service	831,090
Co-curricular/extracurricular activities	1,550,754
General administration	3,150
Plant maintenance and operations	1,276,017
Security and monitoring services	27,545
Data processing	362,042
Community service	<u>46,839</u>
Total depreciation expense - governmental activities	\$ <u>10,753,515</u>

#### **D. Interfund Balances and Transfers**

##### **Due to and from Other Funds**

Balances due to and due from other funds at June 30, 2020 consisted of the following:

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>
General	Major special revenue	\$ 1,193,738
General	Nonmajor governmental	1,705,982
General	Fiduciary fund	51,603
General	Internal service	169
Debt service	General fund	<u>189,273</u>
Total		\$ <u>3,140,765</u>

The receivables recorded in the General Fund represent loans to other funds to cover expenditures, which have not yet been reimbursed by various local, state, and federal grants, and to cover other expenditures for the Internal Service and Student Activity Funds. The receivable balances of the Debt Service Fund represent borrowing between funds expected to be liquidated through normal operations.

#### **E. Unearned Revenue**

Unearned revenues as of June 30, 2020 consisted of the following:

	<u>Major Funds</u>		<u>Other Funds</u>	<u>Total</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>		
Grant funds received but not expended	\$ <u>4,886</u>	\$ <u>-</u>	\$ <u>254,675</u>	\$ <u>259,561</u>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned.

At June 30, 2020, unavailable revenues reported as deferred inflows of resources in the governmental funds were as follows:

	Major Funds		Total
	General Fund	Debt Service Fund	
Unavailable revenue - property taxes	\$ <u>1,422,652</u>	\$ <u>257,710</u>	\$ <u>1,680,362</u>

The unavailable revenue of \$1,680,362 relates to uncollected property taxes, less the allowance for uncollectible amounts. These are shown as deferred inflows of resources in Exhibit C-1 in accordance with GASB Statement No. 65.

## F. **Long-term Obligations**

### **Long-term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended June 30, 2020, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable	\$ 58,875,000	\$ -	\$ 3,960,000	\$ 54,915,000	\$ 4,095,000
Unamortized premiums	4,201,371	-	252,689	3,948,682	252,689
Notes payable	11,500,000	-	-	11,500,000	-
Capital leases	1,225,811	-	593,885	631,926	623,453
Worker's compensation	<u>551,383</u>	<u>1,629,510</u>	<u>976,822</u>	<u>1,204,071</u>	<u>167,528</u>
Total governmental activities	\$ <u>76,353,565</u>	\$ <u>1,629,510</u>	\$ <u>5,783,396</u>	\$ <u>72,199,679</u>	\$ <u>5,138,670</u>

### **General Obligation Bonds**

The District issues general obligation bonds for the governmental activities to provide funds for the acquisition, construction and equipping of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Current principal and interest requirements are payable from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District, interest earnings, and State funds.

The State of Texas enacted in 1997 and in 1999 the Instructional Facilities Allotment (IFA) and the Existing Debt Allotment (EDA) Programs, whereby the District received State funds of \$3,975,931 in the current year for the annual debt service requirements of its general obligation debt. Although future funding is subject to future State legislative appropriations, the State guarantees IFA state aid for the life of the District's eligible debt as well as for the EDA programs which will become part of the baseline budget for TEA. However, in the event that the legislature does not appropriate adequate funds for the IFA and EDA programs, the statute directs the Texas Commissioner of Education to make a transfer from the School Foundation Program (SFP) in an amount sufficient to cover the required payments of the State. This transfer is required by statute and is not subject to the discretion of the Texas Commissioner of Education. This transfer would have the effect of slightly reducing the SFP distribution to all school districts in the state during the fiscal year in which the transfer takes place.

### **Refunding Bonds**

In previous years, the District issued refunding bonds to legally defease certain outstanding general obligation bonds. The net proceeds were deposited in an irrevocable trust account to provide future debt service payments on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the District; therefore, they are not included in the District's financial statements. At June 30, 2020, there were no defeased bonds outstanding.

The District has not defaulted on any principal or interest payments. There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions on June 30, 2020. A summary of bonds that are outstanding at year-end are as follows:

Description	Amounts Original Issue	Interest Rate Payable	Final Maturity	Beginning Balance	Additions	Payments	Balance Outstanding at Year-End	Amounts Due in One Year
<b>Bonds:</b>								
Unlimited Tax School Building Bonds Series 2009	\$ 1,035,000	4.95%	2024	\$ 430,000	\$ -	\$ 80,000	\$ 350,000	\$ 80,000
Unlimited Tax Refunding Bonds Series 2011	29,880,000	2.0% to 5.0%	2031	26,890,000	-	1,850,000	25,040,000	1,900,000
Unlimited Tax Refunding Bonds Series 2013	39,845,000	2.0% to 5.0%	2034	29,615,000	-	1,380,000	28,235,000	1,445,000
Unlimited Tax Refunding Bonds Series 2014	6,695,000	2.0% to 5.0%	2023	<u>1,940,000</u>	<u>-</u>	<u>650,000</u>	<u>1,290,000</u>	<u>670,000</u>
Totals				<u>\$ 58,875,000</u>	<u>\$ -</u>	<u>\$ 3,960,000</u>	<u>\$ 54,915,000</u>	<u>\$ 4,095,000</u>

All payments on the long-term liabilities are made by the General Fund, except for the bonds payable, which are being repaid directly from the Debt Service Fund. Claims liability will be liquidated through the District's Self-Insurance Internal Service Fund. The Self-Insurance Fund will finance the payment of those claims by charging the other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds.

The annual debt service requirements for the bonds are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 4,095,000	\$ 2,455,776	\$ 6,550,776
2022	3,860,000	2,291,866	6,151,866
2023	4,035,000	2,122,959	6,157,959
2024	3,540,000	1,944,478	5,484,478
2025	3,615,000	1,774,651	5,389,651
2026-2030	20,715,000	6,188,188	26,903,188
2031-2034	<u>15,055,000</u>	<u>1,338,023</u>	<u>16,393,023</u>
Totals	<u>\$ 54,915,000</u>	<u>\$ 18,115,941</u>	<u>\$ 73,030,941</u>

### ***Maintenance Tax Notes***

On November 28, 2017, the District issued \$11,500,000 Limited Maintenance Tax Qualified Energy Conservation Notes, Taxable Series 2017 (the Notes). The Notes were issued pursuant to the Constitution and general laws of the State of Texas, particularly Section 45.108 of the Texas Education Code, as amended, and the resolution adopted by the School Board of the District on, the date of sale of the Notes. The Notes are considered direct obligations of the District, payable from available funds of the District, including but not limited to the ad valorem taxes levied by the District for maintenance purposes, within the limitations of the District's maintenance tax authority.

The Notes have been designated as "qualified energy conservation bonds" (QECN) pursuant to Section 54D(a)(3) of the Internal Revenue Code of 1986, as amended. The Notes will be "qualified tax credit bonds" under Section 54A of the Code. The District has made an irrevocable election to treat the Notes as "specified tax credit bonds" pursuant to Section 6431(f)(3)(B) of the Code; as a result the District is eligible to receive a direct subsidy from the United States Department of the Treasury in an amount equal to the lesser of (1) 100% of the interest payable on the interest payment date or (2) 70% of the amount of interest which would have been payable under such Note if interest were determined at the applicable interest rate posted by the United States Department of the Treasury, Bureau of the Fiscal Service effective for the date of sale of the Notes. The applicable interest rate under (2) is posted at the Treasury Direct internet site <https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDDate.htm>. The subsidy is subject to reduction due to sequestration. The Subsidy Payments will be deposited directly on the District's behalf to the "Debt Subsidy Subaccount" and used to pay debt service. As a result of the District's designations and elections entitling it to the receipt of the Subsidy Payments, no owner of the Notes will be entitled to a tax credit as a result of its ownership of a Note.

The proceeds from the sale of the Notes will be used for the purpose of paying lawful maintenance expenses of the District, including the repair, rehabilitation, renovation, replacement, equipping and construction of various existing school facilities, including but not limited to, heating and air conditioning system improvements, and to pay costs of issuance.

A summary of maintenance tax notes that are outstanding at year-end are as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amount Outstanding 7/1/2019	Additions	Retired	Amount Outstanding 6/30/2020	Amounts Due in One Year
Limited Maintenance Tax Qualified Energy QECN, Series 2017	3.762%	\$ 11,500,000	\$ 11,500,000	\$ -	\$ -	\$ 11,500,000	\$ -

The District makes annual payments to the escrow agent into a cumulative sinking fund until maturity. The required deposits/interest payments for the maintenance tax notes are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ -	\$ 432,630	\$ 432,630
2022	960,000	432,630	1,392,630
2023	960,000	432,630	1,392,630
2024	960,000	432,630	1,392,630
2025	960,000	432,630	1,392,630
2026-2030	4,795,000	2,163,150	6,958,150
2031-2033	2,865,000	1,081,575	3,946,575
Totals	\$ 11,500,000	\$ 5,407,875	\$ 16,907,875

The escrow agent will make the principal payment of \$11,500,000 when due on August 15, 2032 (fiscal year 2033).

### **Capital Leases Payable**

On September 01, 2018, the District entered into a master lease/purchase agreement (the lease in the amount of \$1,403,446 with 4.85% incurred interest with Dell Financial Services, LLC (lessor) for the lease of information technology equipment. The agreement meets the definition of a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments at the date of inception. The agreement is payable over 3 years with annual payments of \$490,154 with a final maturity date of September 2020. The District acquired equipment totaling \$1,403,446, and since ownership of the equipment transfers to the District at the end of the lease term, it is included in capital assets in the amount of \$1,403,446 as property under capital lease. The related amortization is included in accumulated depreciation/amortization in the amount of \$194,923 in property under capital lease.

On August 05, 2018, the District entered into a master lease/purchase agreement (the lease) in the amount of \$286,108 with 4.438% incurred interest with CTWP Digital Solutions for the lease of information technology equipment. The lease meets the definition of a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments of \$286,108 at the date of inception. The agreement is payable from the District's General Fund over 3 years with monthly payments of \$8,503. The final maturity date is July 30, 2021. Ownership of the equipment transfers to the District at the end of the lease term; therefore, it is included in capital assets in the amount of \$286,108 as property under capital lease. At June 30, 2020 the related amortization is included as accumulated depreciation/amortization in the amount of \$95,369 in property under capital lease.

On December 1, 2016, the District entered into two master lease/purchase agreement (agreement) in the amount of \$158,263 and \$108,411 totaling \$266,674 with 6.83% incurred interest with Dell Financial Services, LLC (lessor) for the lease of information technology equipment. The agreement meets the definition of a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments at the date of inception. The agreement is payable from the District's General Fund over 5 years with annual payments of \$35,969 and \$24,638 with final maturity date of December 2020. The District acquired equipment totaling \$266,674, and since ownership of the equipment transfers to the District at the end of the lease term, it is included in capital assets in the amount of \$266,674 as property under capital lease. The related amortization is included in accumulated depreciation/amortization in the amount of \$53,335 in property under capital lease.

A summary of capital leases that are outstanding at year-end are as follows:

Description	Purpose	Interest	Final	Amounts	Amount			Amounts	Amounts
		Rate	Maturity	Original	Outstanding	Additions	Retired	Outstanding	Due in
		Payable		Issue	7/1/2019			6/30/2020	One Year
Dell Financial Services LLC	IT Equipment	4.85%	2021	\$ 1,403,446	\$ 913,292	\$ -	\$( 445,827)	\$ 467,465	\$ 467,465
Dell Financial Services LLC	IT Equipment	6.83%	2021	266,674	109,834	-	( 53,102)	56,732	56,731
CTWP	IT Equipment	4.44%	2022	286,108	202,685	-	( 94,956)	107,729	99,257
Total Capital Leases Payable								<u>\$ 631,926</u>	<u>\$ 623,453</u>

The following is a schedule of the future minimum lease payments for the master lease/purchase agreements together with the present value of the net minimum lease payments at June 30, 2020.

Year Ending June 30,	Governmental Activities
2021	\$ 652,797
2022	<u>8,503</u>
Total minimum leases payable	661,300
Less: amounts representing interest	<u>( 29,374)</u>
Present value of minimum lease payments	<u>\$ 631,926</u>

## G. Risk Management

The District is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters of which the District carries commercial insurance. The District established a limited risk management program for workers' compensation in 1989. "Premiums" are paid into the Internal Service Fund by General and Other funds based on actuarial estimates which consider the available net resources. The "Premiums" and available net resources are used to pay claims, administrative costs of the program and to establish claim reserves.

During fiscal year 2020, a total of \$910,943 was incurred in benefits and operating costs. An excess coverage insurance policy covers individual claims in excess of \$450,000 up to a maximum limit of \$1,000,000 for any one event.

The District holds aggregate excess insurance as follows:

Aggregate retention rate:	259.35%
Estimated Manual Premium:	\$ 465,695
Minimum Aggregate retention:	1,207,780

Claims payable reported in the amount of \$1,204,071 was determined based on the requirements of GASB Statement No. 10 as amended by GASB Statement No. 30 which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount if the loss can be reasonably estimated. The liability includes provisions for the following:

- Reserves on open claims on an individual case basis
- The expected ultimate value of future development on reported claims
- The expected ultimate value of claims yet to be reported
- The expected ultimate value of reopened claims
- The allocated loss adjustment expenses; and
- Net of projected recoveries from excess insurance, salvage, and subrogation.

The carrying amount of the liability is presented at an undiscounted rate.

There were no settlements in excess of insurance coverage in any of the prior three years.

A reconciliation of changes in the aggregate liabilities for worker's compensation claims for the three prior and the current year are presented below:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Change in Estimates	Claim Payments	Ending of Fiscal Year Liability
2017	\$ 684,299	\$ 869,597	\$( 632,437)	\$ 921,459
2018	921,459	378,846	( 630,270)	670,035
2019	670,035	468,591	( 587,243)	551,383
2020	551,383	978,810	( 326,122)	1,204,071

#### H. **Defined Benefit Pension Plan**

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

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

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained at [www.trs.texas.gov](http://www.trs.texas.gov) or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.



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

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

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

	Contribution Rates	
	2019	2020
Member	7.7%	7.7%
Non-employer contributing entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Current fiscal year employer contributions		\$ 2,935,968
Current fiscal year member contributions		5,826,639
2019 measurement year NECE on-behalf contributions		2,947,368

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.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

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. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

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

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%
	2.63% Source for the rate is the
	Fixed Income Market Data/Yield
	Curve/Data Municipal Bonds with 20
Municipal Bond Rate as of August 2019	years to maturity that include only
	federally tax-exempt municipal bonds
	as reported in Fidelity Index's "20-
	Year Municipal GO AA Index
Last year ending August 31 in Projection	2116
Period (100 years)	
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions, please see the actuarial valuation report dated November 9, 2018.

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

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

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

Asset Class	FY19 Target Allocation <sup>1</sup>	Long-Term New Target Allocation <sup>2</sup>	Long-Term Expected Geometric Real Rate of Return <sup>3</sup>
Global Equity			
U.S.	18%	18%	6.40%
Non-U.S. Developed	13%	13%	6.30%
Emerging Markets	9%	9%	7.30%
Directional Hedge Funds	4%	-	-
Private Equity	13%	14%	8.40%
Stable Value			
U.S. Treasuries <sup>4</sup>	11%	16%	3.10%
Stable Value Hedge Funds	4%	5%	4.50%
Absolute Return (Including Credit Sensitive Investments)	0%	0%	0%
Real Return			
Global Inflation Linked Bonds <sup>4</sup>	3%	-	-
Real Estate	14%	15%	8.50%
Energy, Natural Resources, and Infrastructure	5%	6%	7.30%
Commodities	0%	0%	0%
Risk Parity			
Risk Parity	5%	8%	5.8%/6.5% <sup>5</sup>
Leverage			
Cash	1%	2%	2.50%
Asset Allocation Leverage	-	-6%	2.70%
Expected Return	100%	100%	7.23%

<sup>1</sup> Target allocations are based on the Strategic Asset Allocation as of FY 2019

<sup>2</sup> New allocations are based on the Strategic Asset Allocation to be implemented FY 2020

<sup>3</sup> 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

<sup>4</sup> New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

<sup>5</sup> 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability	\$ 66,937,256	\$ 43,546,473	\$ 24,595,425

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2020, the District reported a liability of \$43,546,473 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	\$	43,546,473
State's proportionate share that is associated with the District		<u>43,775,600</u>
Total	\$	<u><u>87,322,073</u></u>

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

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0837704011% which was an increase of 0.0036628420% from its proportion measured as of August 31, 2018.

**Changes Since the Prior Actuarial Valuation.**

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

For the year ended June 30, 2020, the District recognized pension expense of \$14,794,764 and revenue of \$6,876,530 for support provided by the State.

At June 30, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 182,934	\$ 1,512,003
Changes in actuarial assumptions	13,510,255	5,583,076
Difference between projected and actual investment earnings	437,257	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,173,805	1,690,919
Contributions paid to TRS subsequent to the measurement date	<u>2,486,255</u>	<u>-</u>
Total	<u><u>\$ 19,790,506</u></u>	<u><u>\$ 8,785,998</u></u>

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

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2021	\$ 2,076,943
2022	1,589,197
2023	2,258,818
2024	2,192,329
2025	723,040
Thereafter	( 322,074)

## **I. Defined Other Post-Employment Benefit Plans**

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

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

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

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

The premium rates for retirees are reflected in the following table.

	<u>TRS-Care Monthly for Retirees</u>	
	<u>Jan. 1 2019 thru Dec. 31 2019</u>	
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999
* or surviving spouse		

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

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

	Contributions Rates	
	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%
Current fiscal year employer contributions		\$ 709,121
Current fiscal year member contributions		491,860
2020 measurement year NECE on-behalf contributions		972,311

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

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

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

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

#### **Additional Actuarial Methods and Assumptions**

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on plan specific experience.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs.
Projected Salary Increases**	3.05% to 9.05%, including inflation
Healthcare Trend Rates	10.25% to 4.50%
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65

**Other Information.** In this valuation, the impact of the Cadillac Tax that is returning in fiscal year 2023, has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.30 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

**Discount Rate.** A single discount rate of 2.63% was used to measure the total OPEB liability. There was an increase of 1.06 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.63%)	Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
Proportionate share of net OPEB liability	\$ 58,869,944	\$ 48,760,809	\$ 40,852,426

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2020, the District reported a liability of \$48,760,809 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 48,760,809
State's proportionate share that is associated with the District	64,792,210
Total	<u>\$ 113,553,019</u>

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

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.1031075227% which was an increase of 0.0020573150% from its proportion measured as of August 31, 2018.

**Healthcare Cost Trend Rates Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
Proportionate share of net OPEB liability	\$ 39,777,359	\$ 48,760,809	\$ 60,794,511

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$2,726,597 and revenue of \$1,707,657 for support provided by the State.

At June 30, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,392,132	\$ 7,979,190
Changes in actuarial assumptions	2,708,283	13,115,461
Differences between projected and actual investment earnings	5,261	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,138,157	2,123,575
Contributions paid to TRS subsequent to the measurement date	592,552	-
Total as of fiscal year-end	<u>\$ 6,836,385</u>	<u>\$ 23,218,226</u>

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:

For the Year Ended June 30,	OPEB Expense
2021	\$( 2,850,451)
2022	( 2,850,451)
2023	( 2,852,154)
2024	( 2,853,128)
2025	( 2,852,861)
Thereafter	( 2,715,348)

## J. Health Care Coverage

As of January 1, 2017, the District implemented a fully insured employee health and life insurance care plan. Under the fully insured health care plan during the year ended June 30, 2020, the District contributed a range of \$375 per month for each employee to the plan of which \$1.35 was for life insurance. Employees, at their option, authorize payroll deductions to pay for health insurance premiums for dependents. Total District contributions towards premiums for health care coverage for the fully insured plan during the year were \$5,883,849.



In previous years, the District established the Health Claims Self-insurance fund, an internal service fund to account for and finance its uninsured risk of loss from health claims of District employees, their spouses and dependents. Under the program, the District provided coverage for up to a maximum of \$200,000 per claim. The District purchased stop-loss coverage to provide a maximum limit of \$1,000,000. During fiscal year 2020, a total of \$92,584 was incurred in benefits and operating costs. The provision for unpaid self-insurance losses is included as claims payable of the internal service fund. The liability is based upon claim experience and the projected time lag in settling such claims and actual claims paid after year end. In prior years, the District contributed to the health insurance fund a payment of \$320 per month per covered employee. Under the plan the employee could elect coverage under different plan options and could elect coverage for dependents which result in the collection of employee payroll deductions to cover the excess cost of the selected options and dependent care coverage.

All funds of the District ceased participation in the program as of December 31, 2016. Therefore, only available net resources were used to pay claims, administrative costs of the program during the fiscal year ended June 30, 2020.

Claims payable was determined based on the requirements of GASB Statement No. 10 as amended by GASB Statement No. 30 which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.

A reconciliation of change in the aggregate liabilities for the health insurance fund for the last 3 years is presented below:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Change in Estimates</u>	<u>Claim Payments</u>	<u>Ending of Fiscal Year Liability</u>
2018	\$ 53,948	\$ ( 37,046)	\$ ( 16,902)	\$ -
2019	-	-	-	-
2020	-	-	-	-

#### **K. Medicare Part D – On-behalf Payments**

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled \$324,869, \$296,392, and \$242,769 for fiscal years 2020, 2019, and 2018, respectively. Revenue and expenditures equal to the amount paid by the federal government were recognized during the fiscal year.

#### **L. Commitments and Contingencies**

##### **Litigation**

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

##### **Grant Programs**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectability of any related receivable at June 30, 2020, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## **Construction Commitments**

An encumbrance system of accounting is maintained to account for commitments from approved purchase orders and contracts. The end-of-year construction contract commitments for the District were \$1,092,603.

## **M. New Accounting Standards**

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

Statement No. 84, *Fiduciary Activities* – This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This Statement will become effective for the District in fiscal year 2021.

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the District in fiscal year 2022.

## **N. Prior Period Adjustments**

The District had recorded unearned revenue for an EFA payment that came in several fiscal years ago. The District was concerned that the money would eventually have to be given back to the Texas Education Agency. Due to the concern, they put the balance of that revenue in unearned revenue. In FY 20, it was apparent that the money was the District's and therefore, an addition to fund balance in the debt service fund of \$904,840 was made. The District also had understated the balance of claims and estimated claims payable in the Worker's Compensation Internal Service Fund. The effect of correcting that was to decrease net position in the internal service fund by \$426,484. In FY 2019, the District switched from an August 31 year-end to a June 30 year-end. In FY 19, the District recognized 12 months of depreciation instead of 10 months. The effect of correcting that was an increase to net position of \$945,885.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**EDGEWOOD INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT G-1**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 18,072,452	\$ 18,094,152	\$ 18,747,604	\$ 653,452
5800	State programs	77,893,401	77,893,401	77,639,355	( 254,046)
5900	Federal programs	12,456,791	12,456,791	12,076,373	( 380,418)
5020	Total revenues	108,422,644	108,444,344	108,463,332	18,988
EXPENDITURES					
Current:					
0011	Instruction	51,858,158	58,427,915	54,668,356	3,759,559
0012	Instructional resources and media sources	1,359,681	1,145,033	1,005,605	139,428
0013	Curriculum and staff development	2,858,729	2,085,264	1,852,771	232,493
0021	Instructional leadership	2,919,075	3,023,068	2,832,628	190,440
0023	School leadership	6,769,088	6,693,364	6,463,237	230,127
0031	Guidance, counseling, and evaluation services	4,266,286	4,220,986	4,049,152	171,834
0032	Social work services	1,240,628	1,142,468	1,045,945	96,523
0033	Health services	1,438,628	1,361,372	1,168,955	192,417
0034	Student transportation	2,118,846	2,004,650	1,909,917	94,733
0035	Food service	8,539,543	8,824,543	7,474,180	1,350,363
0036	Extracurricular activities	3,171,000	2,781,841	2,491,814	290,027
0041	General administration	4,152,580	5,116,777	4,429,522	687,255
0051	Facilities maintenance and operations	11,086,499	12,481,644	11,388,148	1,093,496
0052	Security and monitoring services	2,091,668	2,242,378	2,071,170	171,208
0053	Data processing services	3,031,725	3,264,911	2,847,127	417,784
0061	Community services	194,500	264,192	171,083	93,109
Debt service:					
0071	Principal on long-term debt	148,058	148,058	148,058	-
0072	Interest on long-term debt	447,238	447,238	447,215	23
0073	Other debt service fees	370	2,370	663	1,707
0081	Capital outlay	1,200,000	4,032,950	2,641,476	1,391,474
Intergovernmental:					
0095	Payments to Juvenile Justice Alternative	5,000	10,000	9,917	83
0099	Other governmental charges	125,000	131,547	126,785	4,762
6030	Total expenditures	109,022,300	119,852,569	109,243,724	10,608,845
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	( 599,656)	( 11,408,225)	( 780,392)	10,627,833
OTHER FINANCING SOURCES (USES)					
7912	Sale of real or personal property	-	-	23,150	23,150
7919	Extraordinary item	599,656	599,656	586,205	( 13,451)
7080	Total other financing sources (uses)	599,656	599,656	609,355	9,699
1200	NET CHANGE IN FUND BALANCES	-	( 10,808,569)	( 171,037)	10,637,532
0100	FUND BALANCES, BEGINNING	50,063,797	50,063,797	50,063,797	-
3000	FUND BALANCES, ENDING	\$ 50,063,797	\$ 39,255,228	\$ 49,892,760	\$ 10,637,532

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## EDGEWOOD INDEPENDENT SCHOOL DISTRICT

### NOTES TO BUDGETARY INFORMATION

**The Board adopts an "appropriated budget" on a basis consistent with GAAP for the General Fund, Debt Service Fund and the Child Nutrition Program (which is included in the General Fund). The budget for the Debt Service Fund is adopted by the fund type as a whole rather than for each individual debt service fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The budgets are prepared using the modified accrual basis of accounting.**

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

- Prior to June 20th, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days but not more than thirty days public notice of the meeting is required.
- Prior to July 1st, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board; each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.

Each budget is controlled by the Superintendent at the revenue and expenditure functional and object level. Budgeted amounts are amended by the Board. All budget appropriations lapse at year end.

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY****TEACHER RETIREMENT SYSTEM OF TEXAS****FOR THE YEAR ENDED JUNE 30, 2020**

Measurement period August 31,	<u>2019</u>	<u>2018</u>
District's proportion of the net pension liability (asset)	0.0837704%	0.0801076%
District's proportionate share of the net pension liability (asset)	\$ 43,546,473	\$ 44,093,145
State's proportionate share of the net pension liability (asset) associated with the District	<u>43,775,600</u>	<u>54,587,763</u>
Total	\$ <u>87,322,073</u>	\$ <u>98,680,908</u>
District's covered-employee payroll	\$ 74,896,335	\$ 76,562,335
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	58.14%	57.59%
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%

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



<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.0862172%	0.0841233%	0.0883554%	6.6557900%
\$ 27,567,629	\$ 31,788,942	\$ 31,232,458	\$ 17,778,536
<u>33,093,082</u>	<u>41,099,516</u>	<u>39,562,339</u>	<u>33,597,581</u>
\$ <u>60,660,711</u>	\$ <u>72,888,458</u>	\$ <u>70,794,797</u>	\$ <u>51,376,117</u>
\$ 77,589,381	\$ 77,565,307	\$ 73,234,062	\$ 70,939,043
35.53%	40.98%	42.65%	25.06%
82.17%	78.00%	78.43%	83.25%

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS**

FOR THE YEAR ENDED JUNE 30, 2020

Fiscal year ended June 30,	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 2,935,968	\$ 2,353,711
Contributions in relation to the contractually required contribution	( 2,935,968)	( 2,480,149)
Contribution deficiency (excess)	\$ -	\$ ( 126,438)
District's covered-employee payroll	\$ 75,678,907	\$ 62,152,722
Contribution as a percentage of covered-employee payroll	3.88%	3.79%

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

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 2,858,550	\$ 2,809,709	\$ 2,650,371	\$ 2,595,027
( 2,699,328)	( 2,809,709)	( 2,650,371)	( 2,595,027)
\$ <u>159,222</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
\$ 76,562,335	\$ 77,589,381	\$ 75,565,307	\$ 73,234,062
3.73%	3.62%	3.51%	3.54%

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT G-4**SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET OPEB LIABILITY

## TEACHER RETIREMENT SYSTEM OF TEXAS

FOR THE YEAR ENDED JUNE 30, 2020

Measurement period August 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.1031075227%	0.1010502080%	0.1054691000%
District's proportionate share of the net OPEB liability (asset)	\$ 48,760,809	\$ 50,455,294	\$ 45,864,553
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>64,792,210</u>	<u>61,111,866</u>	<u>54,963,792</u>
Total	<u>\$ 113,553,019</u>	<u>\$ 111,567,160</u>	<u>\$ 100,828,345</u>
District's covered-employee payroll	\$ 74,896,335	\$ 76,562,335	\$ 77,589,381
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	65.10%	65.90%	59.11%
Plan fiduciary net position as a percentage of the total OPEB liability	2.66%	1.57%	0.91%

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

**EDGEWOOD INDEPENDENT SCHOOL DISTRICT****EXHIBIT G-5****SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER  
POSTEMPLOYMENT BENEFITS (OPEB)****TEACHER RETIREMENT SYSTEM OF TEXAS****FOR THE YEAR ENDED JUNE 30, 2020**

Fiscal year ended June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 709,121	\$ 591,043	\$ 748,742
Contributions in relation to the contractually required contribution	( 709,121)	( 591,043)	( 748,742)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 75,678,907	\$ 62,152,722	\$ 76,562,335
Contribution as a percentage of covered-employee payroll	0.94%	0.95%	0.97%

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

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## **APPENDIX C**

### **FORM OF BOND COUNSEL'S OPINION**

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# BRACEWELL

July 14, 2021

\$17,430,000  
EDGEWOOD INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS,  
SERIES 2021A

We have represented Edgewood Independent School District (the “District”) as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

EDGEWOOD INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX  
REFUNDING BONDS, SERIES 2021A, dated as of June 15, 2021.

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and in the bond order adopted by the Board of Trustees of the District authorizing their issuance (the “Bond Order”) and a pricing certificate executed pursuant to the authority delegated in the Bond Order (the “Pricing Certificate,” and, together with the Bond Order, the “Order”). The Bonds are subject to redemption prior the stated maturity thereof as provided in the Order.

We have represented the District as 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 and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. 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. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Order.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, which contains certified copies of certain proceedings of the District; a certain escrow agreement (the “Escrow Agreement”) between the District and UMB Bank, N.A., Austin, Texas, as escrow agent (the “Escrow Agent”); a sufficiency certificate (the “Sufficiency Certificate”) from Hilltop Securities Inc., financial advisor to the District, certifying as to the sufficiency of the deposits made with the Escrow Agent; customary certificates of officers, agents and representatives

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AUSTIN CONNECTICUT DALLAS DUBAI HOUSTON LONDON NEW YORK SAN ANTONIO SEATTLE WASHINGTON, DC

# BRACEWELL

July 14, 2021

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of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. T-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order, including, but not limited to, covenants relating to the tax-exempt status of the Bonds. We have further relied upon the Report regarding the mathematical accuracy of certain computations.

Based on such examination, it is our opinion that:

- 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 effective and, therefore, the Bonds constitute valid and legally binding obligations of the District;
- B. A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds; and
- C. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement and, therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.
- D. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the District and other parties or the Report are determined to be inaccurate or incomplete or the District fails to comply with the covenants of the Order, interest on the Bonds could

# BRACEWELL

July 14, 2021

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become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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Financial Advisory Services  
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