

OFFICIAL STATEMENT DATED AUGUST 24, 2021



NEW ISSUE - Book-Entry-Only

Rating: Standard & Poor's "AAA"

**(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and
"OTHER INFORMATION-Rating" herein)**

Interest on the Bonds (defined below) is not excluded from gross income for federal income tax purposes. See "TAX MATTERS – FEDERAL INCOME TAX TREATMENT OF THE BONDS" herein.



\$12,180,000

WHARTON INDEPENDENT SCHOOL DISTRICT

(Wharton County, Texas)

UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021

Dated Date: September 1, 2021

Due: as shown on page ii hereof

The Wharton Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2021 (the "Bonds") are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, as amended, and an order (the "Bond Order") to be adopted by the Board of Trustees (the "Board") of the Wharton Independent School District (the "District") on August 19, 2021 in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a "Pricing Certificate". The Bond Order and the Pricing Certificate are herein referred to as the "Order". The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance").

Interest on the Bonds will accrue from the date of delivery (defined below) and will be payable on February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2022. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. See "THE BONDS—Description" herein.

The definitive Bonds will be initially registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 in principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal, 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 amount so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS Book-Entry-Only System" herein.

The District has applied for and received conditional approval for the payment of the principal and interest of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District's outstanding unlimited tax bonds (the "Refunded Bonds") for debt service savings (See "APPENDIX A – TABLE 11 – SUMMARY OF REFUNDED BONDS"), and (ii) to pay the costs associated with the sale and issuance of the Bonds.

The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2031 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS Optional Redemption" herein.

SEE MATURITY SCHEDULE ON PAGE ii

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser of the Bonds (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel (see Appendix C, "FORM OF BOND COUNSEL'S OPINION"). It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 28, 2021.

MATURITY SCHEDULE

WHARTON INDEPENDENT SCHOOL DISTRICT (Wharton County, Texas)

\$12,180,000
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021

Maturity	Principal Amount	Interest Rate	Initial		Maturity	Principal Amount	Interest Rate	Initial	
			Reoffering Yield ^(b)	CUSIP No ^(c)				Reoffering Yield ^(b)	CUSIP No ^(c)
2/15/2022	\$ 15,000	5.000%	0.150%	962421 MF 7	2/15/2030	\$ 750,000	5.000%	1.450%	962421 MN 0
*****	*****	*****	*****	*****	2/15/2031 ^(a)	805,000	1.500%	1.550%	962421 MP 5
2/15/2024	840,000	5.000%	0.400%	962421 MG 5	2/15/2032 ^(a)	870,000	1.600%	1.650%	962421 MQ 3
2/15/2025	885,000	5.000%	0.600%	962421 MH 3	2/15/2033 ^(a)	890,000	1.700%	1.750%	962421 MR 1
2/15/2026	925,000	5.000%	0.800%	962421 MJ 9	2/15/2034 ^(a)	900,000	1.800%	1.850%	962421 MS 9
2/15/2027	970,000	5.000%	1.000%	962421 MK 6	2/15/2035 ^(a)	925,000	2.000%	2.000%	962421 MT 7
2/15/2028	785,000	5.000%	1.200%	962421 ML 4	2/15/2036 ^(a)	940,000	2.000%	2.050%	962421 MU 4
2/15/2029	720,000	5.000%	1.300%	962421 MM 2	2/15/2037 ^(a)	960,000	2.050%	2.100%	962421 MV 2

(Interest to accrue from the delivery date)

^(a) The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2031., in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS Optional Redemption" herein.

^(b) The initial yields at which Bonds are priced are established by and are the sole responsibility of the Initial Purchaser and may be changed at any time at the discretion of the Initial Purchaser.

^(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. None of the District, the Financial Advisor, or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Years of Service</u>	<u>Term Expires May</u>	<u>Employer</u>
Curtis W. Evans	President	6	2023	Technician
Philip Henderson, Sr.	Vice President	New	2024	TX DOT Permits
Christine Stransky	Secretary	11	2022	Substitute Teacher
Rachel Rust	Member	11	2022	Attorney
Miguel Santes	Member	New	2024	Barber
Sherrell Speer	Member	21	2023	Retired Auctioneer
Fred Johnson	Member	1	2023	Teacher

Administrators

<u>Name</u>	<u>Title</u>	<u>Years in Position</u>
Dr. Michael O'Guin	Superintendent	1 year
Crystal Valdez*	Chief Financial Officer	1 year
* Ms. Valdez has resigned from the District effective August 27, 2021.		
April Pinkham**	Chief Financial Officer	New

** Ms. Pinkham has been hired by the District effective August 30, 2021.

Consultants and Advisors

Certified Public Accountant	Harry Afadapa & Associates, P.C. Houston, Texas
Bond Counsel	Hunton Andrews Kurth LLP Houston, Texas
Financial Advisor	USCA Municipal Advisors, LLC Houston, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page 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 is not to be construed as the promise or guarantee of the Financial Advisor or the Initial Purchaser. 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 herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

NONE OF THE DISTRICT, THE INITIAL PURCHASER, OR THE DISTRICT'S FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

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

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

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

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

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purposes.

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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.

The District..... The Wharton Independent School District (the “District”) operates as an independent school district under the laws of the State of Texas (the “State”). The District is located in Wharton County, Texas. See “THE DISTRICT” herein.

The Bonds..... The Bonds are being issued in the principal amounts and mature on the dates set forth on the inside cover page hereof. The Bonds bear interest from the date of delivery, at the rates per annum set forth on the inside cover hereof, which interest is payable each February 15 and August 15, commencing February 15, 2022, until maturity or prior redemption. See “THE BONDS—Description” herein.

Authority for Issuance. The Bonds are being authorized and issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1207, Texas Government Code, as amended, and an order (the “Bond Order”) to be adopted by the Board of Trustees (the “Board”) of the District on August 19, 2021 in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a “Pricing Certificate”. The Bond Order and the Pricing Certificate are herein referred to as the “Order”. The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see “THE BONDS - Authority for Issuance”).

Use of Proceeds Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District’s outstanding unlimited tax bonds (the “Refunded Bonds”) for debt service savings (See “APPENDIX A – TABLE 11 – SUMMARY OF REFUNDED BONDS”), and (ii) to pay the costs associated with the sale and issuance of the Bonds.

Security for Bonds Principal of and interest on the Bonds will be payable from the receipts of an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. See “THE BONDS-Security and Source of Payment” and “TAX RATE LIMITATIONS” herein.

Permanent School

Fund Guarantee..... The District applied to the Texas Education Agency and has received conditional approval for the Bonds to be guaranteed by the corpus of the Permanent School Fund. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

Redemption The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See “THE BONDS Optional Redemption” herein.

NOT Tax-Exempt Interest on the Bonds is **not** excludable from gross income for federal income tax purposes under existing law. See “TAX MATTERS” herein.

Rating S&P Global Ratings, Inc. (“S&P”) has assigned its municipal bond rating of “AAA” to the Bonds by virtue of the guarantee of the Permanent School Fund of the State of Texas on the Bonds. The Bonds and the presently outstanding unenhanced tax-supported debt of the District carry an underlying rating of “A+” by S&P. See “OTHER INFORMATION-Rating” and “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein. S&P generally rates all bonds that are guaranteed by the Permanent School Fund Guarantee Program as “AAA.”

Book-Entry-Only

System..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the book-entry-only system described herein. The Bonds will be issued in denominations of \$5,000, as applicable, in principal amount, or any integral multiple 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” herein.

Payment Record..... The District has never defaulted in the payment of its tax-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year End	Estimated Population ^(a)	Taxable Assessed Valuation ^(b)	Per Capita Assessed Valuation	Ad Valorem Tax Supported Debt	Per Capita Tax Supported Debt	Ratio Tax Debt to Assessed Valuation	Tax Year
2018	11,054	\$ 1,188,607,486	\$ 97,093	\$ 19,655,000	\$ 1,606	1.654%	2017
2019	11,054	1,389,419,536	112,860	54,475,000	4,425	3.921%	2018
2020	10,586	1,399,163,787	123,710	53,090,000	4,694	3.794%	2019
2021	10,118	1,360,500,682	120,292	72,685,000	6,427	5.343%	2020
2022	10,118	1,334,011,467	131,845	70,635,000 ^(c)	6,981	5.295%	2021

^(a) Source: Municipal Advisory Council of Texas.

^(b) Source: The District's Annual Financial Reports, and the Wharton County Appraisal District.

^(c) Includes the Bonds and excludes the Refunded Bonds.

General Fund Consolidated Statement Summary ^{(a)(b)}

	2020	2019	2018	2017	2016
Beginning Balance	\$ 14,957,188	\$ 11,483,930	\$ 10,315,171	\$ 11,765,962	\$ 12,901,932
Adjustments to Fund Balance	-	-	-	-	-
Total Revenue	20,878,311	23,306,713	26,158,913	21,134,868	18,281,232
Total Expenses	21,282,574	19,844,507	23,913,570	21,908,216	19,399,099
Net Other Resources (Uses)	-	11,052	(1,076,584)	(677,443)	(18,103)
Ending Balance	\$ 14,552,925	\$ 14,957,188	\$ 11,483,930	\$ 10,315,171	\$ 11,765,962

^(a) Source: The District's audited financial statements.

^(b) For fiscal year 2021, the District estimates a General Fund balance of \$14,393,536.

For Additional Information Regarding the District Contact:

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 Wharton, Texas 77488
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OFFICIAL STATEMENT

WHARTON INDEPENDENT SCHOOL DISTRICT (Wharton County, Texas)

\$12,180,000

UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2021

INTRODUCTION

This Official Statement, including Appendices A and B hereto, provides certain information regarding the issuance of the Wharton Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2021 (the “Bonds”). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the “Bond Order”) to be adopted by the Board of Trustees (the “Board of Trustees”) of the Wharton Independent School District (the “District”) on August 19, 2021, in which the Board delegated to certain officers of the District authority to complete the sale of the Bonds through the execution of a “Pricing Certificate.” The Bond Order and the Pricing Certificate are herein referred to as the “Order.”

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Financial Advisor, USCA Municipal Advisors, LLC, Houston, Texas, by electronic mail or upon payment of reasonable handling, mailing, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board at www.emma.msrb.org. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the District’s undertaking to provide certain information on a continuing basis.

Interest on the Bonds is not excluded from gross income for federal income tax purposes. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

PLAN OF FINANCE

Purpose

Proceeds from the sale of the Bonds will be used (i) to refund the District’s Unlimited Tax Refunding Bonds, Series 2013 and the District’s Unlimited Tax Refunding Bonds, Series 2014 (the “Refunded Bonds”) for debt service savings, and (ii) to pay the cost associated with the sale and issuance of the Bonds. See “APPENDIX A – TABLE 11 – SUMMARY OF REFUNDED BONDS” for a detailed listing of the Refunded Bonds and their redemption date.

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the redemption dates (or maturities, if defeased to maturity) of such Refunded Bonds from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”). The Order provides that from the proceeds of the sale of the Bonds received from the initial purchaser of the Bonds (the “Initial Purchaser”) and the cash contribution from the District, if any, the District will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective interest payment dates and their redemption dates (or maturities, if defeased to maturity). Such funds will be held by the Escrow Agent in an escrow fund (the “Escrow Fund”) and used to purchase securities authorized by Chapter 1207, Texas Government Code, as amended (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Public Finance Partners LLC will issue its report (the “Report”) verifying at the time of delivery of the Bonds to the Initial Purchaser thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their respective interest payment dates and redemption dates or maturity dates. Such maturing principal

of and interest on the Escrowed Securities will not be available to pay the Bonds (see “OTHER INFORMATION - Verification of Arithmetical Computations”).

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with Texas law. It is the opinion of Bond Counsel, as a result of such defeasance and in reliance upon the Report, that the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee.

Sources and Uses of Funds

Proceeds from the sale of the Bonds will be applied in the amounts shown below.

<u>Sources of Funds</u>	
Par Amount of Bonds	\$12,180,000.00
Net Premium	<u>1,141,093.15</u>
Total	\$13,321,093.15
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$13,124,206.65
Costs of Issuance	136,500.00
Initial Purchaser's Discount	56,339.94
Additional Proceeds	<u>4,046.56</u>
Total	\$13,321,093.15

THE BONDS

Description

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Order which may be obtained upon request to the District.

The Bonds are dated September 1, 2021 (the “Dated Date”) and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the date of delivery, and will be payable each February 15 and August 15, commencing February 15, 2022, until maturity or earlier redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount 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 beneficial owners thereof.** Principal of, premium, if any, and accrued interest on the Bonds will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (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 pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended, and the Order.

Security and Source of Payment

The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property within the District. Additionally, the District has applied for and received conditional approval for the payment of principal and interest on the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of Texas. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein. In the event the District defeases any of the Bonds, the payment of such Bonds will cease to be guaranteed by the Permanent School Fund of the State of Texas.

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2030, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Defeasance

The Order provides for the defeasance of the Bonds in any manner permitted by law. Under current Texas law, defeasance would include when payment of the principal amount of and interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or a trust company or commercial bank authorized to serve as Escrow Agent, (a) cash in an amount sufficient to make such payment or (b) pursuant to an escrow or trust agreement, cash and/or (1) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (3) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, the principal and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other money, if any, held in such escrow, will be sufficient to provide for the timely payment of the principal of and interest on such Bonds to their due date. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation.

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such

investments, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

Upon such deposit, the Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner described above.

Book-Entry-Only System

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

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

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

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 confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 a maturity 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. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. Discontinuance by the District of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the District may require the consent of Participants under DTC's operational arrangements. In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District, the Financial Advisor nor the Initial Purchaser take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement.

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

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times 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 United States or any state and duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees promptly to 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.

Interest on each Bond shall be paid by check dated as of the interest payment date, and sent first class United States mail, postage prepaid, by the Paying Agent/Registrar to each registered owner, as shown in the Register at the close of business on the Record Date (hereinafter defined), at the address of each such registered owner as such appears in the register or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The principal of each Bond shall be paid to the registered owner thereof at stated maturity or proceedings for prior redemption upon presentation and surrender of

such Bond at the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of amounts due and payable with respect to the Bonds representing the principal, premium, if any, and the interest due on the Bonds is a day that is a Saturday, Sunday, legal holiday or other day on which banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall for all purposes be deemed to have been made on the due date thereof as specified in the Order. 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 “– Book-Entry-Only System” above.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated payment office 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, exchange and transfer. Bonds 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 designated payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount for any one maturity 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 called for redemption within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment

The record date for determining the party to whom interest is payable (the “Record Date”) on any interest payment date means the close of business on the fifteenth day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date that continues for 30 days or more 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

The Order does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“Tooke”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any

other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of 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 another federal or state court); and, the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

This disclosure statement provides information relating to the program (the “Guarantee Program”) administered by the Texas Education Agency (the “TEA”) with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and is governed 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 supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. 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, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and 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, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, 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.

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 “Education Commissioner”), bonds properly issued by a school district are fully guaranteed by 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 Education Commissioner. On approval by the Education Commissioner, bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program 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 (the “Attorney General”) been requested to issue an opinion, with respect to its constitutional validity.

Audited financial information for the SBOE (as defined herein) financial portfolios of 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 State School Land Board’s (“SLB”) land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the comprehensive annual report of the State of Texas. 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, 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 (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) 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”), and (iv) 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/ and with the MSRB at 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. 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. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the State Board of Education (the “SBOE”) the authority and responsibility for investment of the PSF’s financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office. See “2021 Legislation – SB 1232” for proposed changes affecting the management of the Fund.

The Texas Constitution provides that the Fund shall be managed through the exercise of 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 “Prudent Person Standard”). 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.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, 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 below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property (the 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, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is hired by and reports to the Education Commissioner. Moreover, although the Fund’s Executive Administrator and the PSF staff at TEA 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. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund.

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid “by appropriation” from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0293 (2005), stating 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.

The SBOE/PSF investment staff and the SBOE’s investment consultant for the Fund 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. See “2021 Legislation – SB 1232” for a discussion of proposed changes to the management of the Fund.

The SBOE contracts with a financial institution for custodial and securities lending services in addition to the performance measurement of the total return of the Fund’s financial assets managed by the SBOE. 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. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund that may result in changes to the employment and compensation options available to the management of the Fund.

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other financial statements of the State. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Texas law assigns to the SLB the ability to control of the Fund’s land and mineral rights and make investments in real assets. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the elected commissioner of the GLO (the “Land Commissioner”). See “2021 Legislation – SB 1232” for proposed changes in the management of Fund assets by the SLB. The SLB manages the proceeds of the land and mineral rights that are administered by the GLO on behalf of the Fund. The SLB is governed by a five member board, the membership of which consists of the Land Commissioner, who sits as the chairman of the board, and four citizen members appointed by the Governor. The SLB and is generally authorized to invest in the following asset classes:

- Discretionary real assets investments consisting of externally managed real estate, infrastructure, and energy/minerals investment funds, separate accounts, and co-investment vehicles; internally managed direct real estate investments, and associated cash;
- Sovereign and other lands, being the lands set aside for the Fund when it was created, and other various lands not considered discretionary real asset investments; and,
- Mineral interests associated with Fund lands.

See “2021 Legislation – SB 1232” for changes in State law that pertain to the SLB’s future authority to manage the land and mineral rights. At August 31, 2020, the SLB managed approximately 15% of the PSF, as reflected in the fund balance of the PSF at that date.

In 2019, the Texas Legislature enacted legislation that required 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. The inaugural joint meeting was held in September 2020. Other legislation enacted in 2019 included a bill that created a “permanent school fund liquid account” (the “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. That legislation also provided for the SBOE to administer and invest the Liquid Account and required the TEA, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. That study (the “PSF Distribution Study”), dated August 31, 2020, is available at <https://tea.texas.gov/sites/default/files/TEA-Distribution-Study.pdf>.

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. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. 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, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the 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”), 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.” The definition of intergenerational equity that the SBOE has generally followed 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 consultants, 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 student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

On November 8, 2011, a referendum was held in the State at which voters of the State 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 November 8, 2011 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 was already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) 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, 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.

The following table shows amounts distributed to the ASF from the portions of the Fund administered by the SBOE (the “PSF(SBOE)”) and the SLB (the “PSF(SLB)”).

Annual Distributions to the Available School Fund¹

Fiscal Year Ending	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
PSF(SBOE) Distribution	\$1,093	\$1,021	\$1,021	\$839	\$839	\$1,056	\$1,056	\$1,236	\$1,236	\$1,102
PSF(SLB) Distribution	\$0	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600 ²
Per Student Distribution	\$246	\$221	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2020.

² 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 portion 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. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$875 million for the biennium.

Efforts to achieve the intergenerational equity objective, as described above, result in changes in the Distribution Rate for each biennial period. The following table sets forth the Distribution Rates announced by the SBOE in the fall of each even numbered year to be applicable for the following biennium.

State Fiscal Biennium	2008-09	2010-11	2012-13	2014-15	2016-17	2018-19	2020-21	2022-23
SBOE Distribution Rate ¹	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF.

See “2021 Legislation – SB 1232” for a discussion of proposed changes in the management of the Fund that may impact distributions to the ASF.

2021 Legislation - Senate Bill 1232

During the 87th Regular Session of the Texas Legislature, which concluded on May 31, 2021 Senate Bill 1232 (“SB 1232” or “the bill”) was enacted, which relates to the management and investment of the Fund. Among other provisions of SB 1232 are provisions authorizing the creation of the Texas Permanent School Fund Corporation (the “PSF Corporation”) by the SBOE. If the PSF Corporation is created, the SBOE would delegate to the PSF Corporation the SBOE’s authority to manage and invest the Fund. Also, the bill would limit the authority of the SLB to manage and invest the Fund if the PSF Corporation is created. The SBOE is not required to create the PSF Corporation, but if it does not do so by December 31, 2022, then the statutory changes related to the SLB do not take effect. While the creation of the PSF Corporation is not mandatory, it is expected that the SBOE will create the PSF Corporation.

As required by State law, the Legislative Budget Board (“LBB”) issued a fiscal note on SB 1232. The fiscal notes stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill cannot be determined at this time. However, the fiscal note states that TEA and the GLO project that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally in calendar year 2023. As a result, the planning and implementation of the creation and operation of the PSF Corporation by the SBOE and future PSF Corporation board members will necessarily evolve over time with much of the detail relating to those matters yet to be determined.

Among other provisions, of the bill, it provides that the PSF Corporation, the SBOE and TEA shall coordinate to determine the PSF Corporation’s role in the operation and management of the Guarantee Program to ensure the proper and efficient operation of the program.

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>.

If created, the PSF Corporation will be a special-purpose governmental corporation and instrumentality of the State and will be entitled to sovereign immunity. The PSF Corporation will be governed by nine-member board of directors (the “Board”), consisting of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management; with one of the appointees being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate. The chief executive officer of the PSF Corporation will be employed by the Board and will have responsibility for engaging all employees, all of whom will be State employees. Among other powers, the PSF Corporation will be exempt from State laws regulating or limiting purchasing by State agencies and it will be authorized to engage in any activity necessary to manage the investments of the PSF, including contracting in connection with the investment of the PSF to the extent the activity complies with applicable fiduciary duties.

The bill grants the PSF Corporation discretion in determining the applicability to the corporation of certain State laws, including personnel and compensation, purchasing, information technology, and other support services.

SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. In addition, the bill provides for the dissolution of the Liquid Account (which held approximately \$4 billion at the close of fiscal year 2020) and the blending of amounts therein into the general investment portfolio of the PSF, subjecting such amounts to the general asset allocation of the PSF.

The PSF Corporation would be vested with the power to make distributions from the PSF to the ASF subject to the limitations of the Total Return Constitutional Amendment.

Not less than once each year, the Board would be required to submit an audit report to the LBB regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization would not affect the State Auditor’s authority to conduct an audit of the PSF Corporation in accordance with other State laws.

The bill amends provisions of the Texas Natural Resources Code (the “NRC”) that pertain to the authority of the SLB to manage public school land by limiting investments by the SLB to “real property holdings,” which are defined to mean direct or indirect interests in real property located in the State or any interest in a joint venture whose primary purpose is the acquisition, development, holding, and disposing of real property located in the State. The bill excludes from the definition of “real property holdings” any interest in an “investment vehicle,” and requires SLB to transfer mineral revenues to the PSF Corporation monthly. The determination of whether to make a direct transfer to the ASF from the revenues of the land or other properties is presently made by SLB, and the decision as to whether to make a direct transfer to the ASF, and the amount of such transfer, is solely within the

purview of the SLB. That authorization would continue after creation of the PSF Corporation and implementation of the proposed changes set forth in SB 1232.

Asset Allocation of Fund Portfolios

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. 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. 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 most recent asset allocation of the PSF(SBOE), approved by the SBOE in July 2020, is set forth below, along with the current asset allocations of the PSF(SLB) and the asset allocation of the Liquid Account. The next scheduled review of the PSF(SBOE) asset allocation is July 2022. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that could affect the responsibility for review of the asset allocation and the timing of asset allocation review, as well as elimination of the Liquid Account.

PSF Strategic Asset Allocations

	PSF Total	PSF(SBOE)	PSF(SLB)	Liquid Account
Equity Total	47%	52%	0%	40%
Public Equity Total	34%	37%	0%	40%
Large Cap US Equity	13%	14%	0%	20%
Small/Mid Cap US Equity	5%	6%	0%	5%
International Equities	13%	14%	0%	15%
Emerging Markets Equity	2%	3%	0%	0%
Private Equity	13%	15%	0%	0%
Fixed Income Total	27%	25%	0%	40%
Core Bonds	11%	12%	0%	10%
High Yield	2%	3%	0%	0%
Emerging Markets Debt	6%	7%	0%	0%
Treasuries	2%	3%	0%	0%
TIPS	3%	0%	0%	5%
Short Duration	2%	0%	0%	25%
Alternative Investments Total	25%	22%	100%	
Absolute Return	6%	7%	0%	0%
Real Estate	12%	11%	33%	0%
Real Return	1%	4%	0%	0%
Energy	3%	0%	35%	0%
Infrastructure	3%	0%	32%	0%
Emerging Manager Program	0%	1%	0%	0%
Cash	2%	0%	0%	20%

For a variety of reasons, each change in asset allocation for the Fund has been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified.

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2019 and 2020.

Comparative Investment Schedule - PSF(SBOE)¹

Fair Value (in millions) August 31, 2020 and 2019				
ASSET CLASS	August 31, 2020	August 31, 2019	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,005.8	\$1,645.8	\$ 360.0	21.9%
Domestic Large Cap	5,106.3	4,643.7	462.6	10.0%
Total Domestic				
Equity	7,112.1	6,289.5	822.6	13.1%
International Equity	6,380.9	5,676.3	704.6	12.4%
TOTAL EQUITY	13,493.0	11,965.8	1,527.2	12.8%
FIXED INCOME				
Domestic Fixed Income	4,232.6	4,575.2	(342.6)	-7.5%
U.S. Treasuries	918.7	-	918.7	N/A
Emerging Market				
Debt	2,450.7	2,410.4	40.3	1.7%
TOTAL FIXED INCOME	7,602.0	6,985.6	616.4	8.8%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,517.2	3,622.6	(105.4)	-2.9%
Real Estate	3,102.1	2,983.5	118.6	4.0%
Private Equity	4,761.5	3,872.8	888.7	22.9%
Risk Parity	1,164.9	2,557.6	(1,392.7)	-54.5%
Real Return	2,047.4	2,109.3	(61.9)	-2.9%
TOT ALT INVESTMENTS	14,593.1	15,145.8	(552.7)	-3.6%
UNALLOCATED CASH	122.9	163.3	(40.4)	-24.7%
TOTAL PSF(SBOE) INVESTMENTS	\$ 35,811.0	\$ 34,260.5	\$ 1,550.5	4.5%

Source: PSF Annual Report for year ended August 31, 2020.

¹ The investments shown in the table above at August 31, 2020 do not fully reflect the changes made to the PSF Strategic Asset Allocation in 2020, as those changes were still being phased in at the end of the fiscal year.

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously 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 Liquid Account (shown above), which, when adopted, was expected to be fully implemented in the first calendar quarter of fiscal year 2022. See “2021 Legislation – SB 1232” for a discussion of proposed changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

The table below sets forth the investments of the Liquid Account for the year ended August 31, 2020.

Liquid Account Fair Value at August 31, 2020¹

ASSET CLASS

Fixed Income

Short-Term Fixed Income	\$1,597.3
Unallocated Cash	<u>2,453.3</u>
Total Liquid Account Investments	<u>\$4,050.6</u>

¹ In millions of dollars.

Source: PSF Annual Report for year ended August 31, 2020.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2019 and 2020.

Comparative Investment Schedule - PSF(SLB)

Fair Value (in millions) August 31, 2020 and 2019

	<u>As of</u> <u>8-31-20</u>	<u>As of</u> <u>8-31-19</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
Asset Class				
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$1,164.0	\$1,667.6	\$(503.6)	-30.2%
Infrastructure	1,485.4	1,226.3	259.1	21.1%
Real Estate	1,174.8	1,033.6	141.2	13.7%
Internally Managed Direct				
Real Estate Investments	219.5	247.3	(27.8)	-11.2%
Total Discretionary				
Real Assets Investments	4,043.7	4,174.8	(131.1)	-3.1%
Dom. Equity Rec'd as In-Kind Distribution	0.9	1.3	(0.4)	-30.8%
Sovereign and Other Lands	408.6	372.3	36.3	9.8%
Mineral Interests	2,115.4	3,198.2	(1,082.8)	-33.9%
Cash at State Treasury ²	333.8	4,457.3	(4,123.5)	-92.5%
Total PSF(SLB)				
Investments	\$6,902.4	\$12,203.9	\$(5,301.5)	-43.4%

¹ The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

² Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

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. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events and the market impact of domestic and international climate change; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person 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, PSF operational limitations impacted by Texas law or legislative appropriation. See “2021 Legislation – SB 1232” for a discussion of proposed changes in the management of the Fund that may affect these factors. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

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

The Charter District Bond Guarantee Program

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

The Charter District Bond Guarantee Program has been authorized through the enactment of amendments to the Act, which provide that a charter holder may make application to the Education 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 2021 (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 6.83%. At August 19, 2021, there were 191 active open-enrollment charter schools in the State and there were 888 charter school campuses active under such charters (though as of such date, 53 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 Education 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 Education 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 Education 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 Education 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 Education 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 Education Commissioner determines that the charter district is acting in bad faith under the program, the Education 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 Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter

school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Education 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 makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program, but is not reserved exclusively for 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, changes in State or federal law or regulations related to the Guarantee Program limit, 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 Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a notice issued by the IRS (the "IRS Limit", with the limit in effect at any given time being the "Capacity Limit"). 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.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 ("SB 389") was enacted, providing for 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 provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified 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 Education Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education 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.

Since September 2015, the SBOE has periodically voted to change the capacity multiplier as shown in the following table.

<u>Changes in SBOE-determined multiplier for State law capacity</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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. On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS would 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 provided 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 became 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.

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. 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 (\$117,318,653,038) remained the lower of the two, so it is the current 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 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 Education 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 Education 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/, 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 Fund investment performance, 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 significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE is seeking changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the IRS will issue guidance that would increase the IRS Limit. The implementation of the Charter School Bond Guarantee Program has also increased the total amount of guaranteed bonds.

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. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the 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. SB 1480 amended the CDBGP Capacity calculation so that the 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 increasing the CDBGP Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBGP Capacity to begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022) but authorized the SBOE discretion to increase the CDBGP Capacity incrementally in the intervening four fiscal years, beginning with fiscal year 2018 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, which it has done.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 6.83% in March 2021. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provided that the Education 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 Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Education 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 Education 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 Education 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. At July 31, 2021, the Charter District Reserve Fund contained \$63,249,051, which represented approximately 2.02% of the guaranteed charter district bonds. In 2018, the management of the Reserve Fund was transferred from the Texas Comptroller 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. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

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 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.

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon on-going compliance with State law and regulations, which are monitored by TEA. 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. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

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 established the Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF.

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency’s essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Results of the PSF operations through the fiscal year ended August 31, 2020 and at other periodic points in time are set forth herein or incorporated herein by reference. Fund management is of the view that since the onset of the pandemic the Fund has performed generally in accordance with its portfolio benchmarks and with returns generally seen in the national and international investment markets in which the Fund is invested (see “Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020”).

Circumstances regarding the COVID-19 pandemic continue to evolve; 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>.

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. However, through the end of July 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

For information on the September 2020 special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, that was made in light of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas, see “The Total Return Constitutional Amendment.”

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 "Ratings" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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 ⁽²⁾	36,642,000,738	46,764,059,745

⁽¹⁾ 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.

⁽²⁾ 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 July 31, 2021, the PSF had a book value of \$38,340,467,590 and a market value of \$53,232,714,384. July 31, 2021 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
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 ⁽²⁾

⁽¹⁾ 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.

⁽²⁾ At 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 Capacity Limit), net of the Capacity Reserve, as of July 31, 2021, 5.66% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of August 31, 2020 and July 31, 2021, the amount of outstanding bond guarantees represented 77.00% and 81.07%, respectively, of the Capacity Limit (which is currently the IRS Limit). July 31, 2021 data is unaudited and is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>8/31</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</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 ⁽²⁾	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

⁽¹⁾ 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.

⁽²⁾ At July 31, 2021 (based on unaudited data, which is subject to adjustment), there were \$95,115,492,855 of bonds guaranteed under the Guarantee Program, representing 3,390 school district issues, aggregating \$91,990,680,855 in principal amount and 76 charter district issues, aggregating \$3,124,812,000 in principal amount. At July 31, 2021, the CDBG Capacity was \$6,309,019,662 (based on unaudited data, which is subject to adjustment).

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

The following discussion is derived from the Annual Report for the year ended August 31, 2020, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid 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. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2020.

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.

PSF Returns Fiscal Year Ended 8-31-2020¹		
<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(SBOE) Portfolio	7.50%	8.54%
Domestic Large Cap Equities(SBOE)	22.37	21.94
Domestic Small/Mid Cap Equities(SBOE)	3.44	2.83
International Equities(SBOE)	8.80	8.31
Emerging Market Equity(SBOE)	15.84	14.49
Fixed Income(SBOE)	5.50	6.47
Absolute Return(SBOE)	4.43	7.19
Real Estate(SBOE)	2.93	1.26
Private Equity(SBOE)	4.63	4.85
Risk Parity(SBOE)	2.41	16.20
Real Return(SBOE)	3.33	2.85
Emerging Market Debt(SBOE)	1.67	1.55
Liquid Short-Term Fixed Income(SBOE)	2.78	3.40
Liquid Transition Cash Reserves(SBOE)	1.62	1.26
Liquid Combined(SBOE)	2.35	2.04
PSF(SLB)	-12.27	N/A

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2020.

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2020.

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.

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 directly 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 Guarantee 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 Guarantee 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 Guarantee Program.

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.

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/. 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, 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 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 of the Guarantee Program; (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 such event is material within the meaning of the federal securities laws; (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 Guarantee 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.

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 (“HB 3”) and Senate Bill 2 (“SB 2”). The information contained herein under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

Prior to the 2019 Legislative Session, a school district’s maximum M&O tax rate for a given tax year was determined by multiplying that school district’s 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the “Commissioner”). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable value. 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 86th 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 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, being an additional amount of local M&O funding 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) have 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 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 set at 90% of the maximum MCR until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

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

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

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

State Funding for School Districts

State funding for school districts is provided through the two tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's respective M&O tax rates generate tax revenues at a level below the respective entitlement, the school district is entitled to receive Tier One funding or Tier Two funding, respectively, from the State in an amount equal to the difference between the school district's entitlements and the actual M&O revenues generated by the school district's Tier One Tax Rate and Enrichment Tax Rate, respectively.

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 additional funds known as "Tier Two" of the Foundation School Program. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

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

For the 2019-2020 State fiscal year, the Basic Allotment for school districts with a Tier One Tax Rate equal to \$0.93, was \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than \$0.93. For the State fiscal year ending in

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per 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 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 cent per student in WADA for the 2018-2019 school year to \$49.28 per cent 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 2020-21 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 2020-21 State fiscal biennium on new bonds issued by school districts in the 2020-21 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. The 86th 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 to generate local revenues in excess of the school district's Tier One State and local entitlement and whose Copper Pennies generate local funds in excess of the school district's Tier II guarantee as previously discussed (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, and 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 WADA, 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 and adjourned on May 31, 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 discretion, each lasting no more than 30 days, and for which the Governor sets the agenda.

During the legislative session, the Legislature approved a general appropriations act and 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 is in the process of evaluating legislation passed during the Regular Session and how it may affect the District. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called a special session to convene on July 8, 2021, to address issues to be announced prior to the convening of the session. Such agenda could include items affecting the District or its finances. The District can make no representations or predictions concerning the substance or the effect of any legislation that may pass during the upcoming special session or any future sessions of the legislature.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2021-2022 fiscal year, the District has been designated as an "excess local revenue" district by the TEA. Accordingly, the District has been required to exercise one of the permitted wealth equalization options.

A district's status of any excess local revenue in Tier I and its wealth per student for Copper Penny purposes in Tier II must be tested for each future school year and, if it exceeds the maximum permitted levels, the excess must be reduced by exercising one of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for 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 Wharton County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates. See "AD VALOREM TAX PROCEDURES – 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 market 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 market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts

a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no 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 TAX PROCEDURES – District Application of Tax Code” herein.

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) 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.

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.

District Application of Tax Code

The District has not granted an additional exemption to the market value of the residence homestead of persons 65 years of age or older over the state-mandated exemption. The District has not granted an additional local exemption of market value of residence homesteads.

Ad valorem taxes are levied by the District against the exempt value of residence homesteads for the payment of debt. The District does tax non-business personal property. The District does not permit split payments, and discounts are not allowed. The District does not tax Freeport property. The District has not entered into tax abatement agreements. The District does tax Goods-In-Transit.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on November 18, 1961 pursuant to Article 2784e-1, Texas Revised Civil Statutes ("Article 2784e-1").

The 2019 Legislation established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by school districts, such as the District, beginning with the 2020 tax year:

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district’s budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate

for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

EMPLOYEES' BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For a discussion of the TRS retirement plan, see "APPENDIX B –SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY" and "–Defined Benefit Pension Plan."

In addition to its participation in the TRS, 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.

TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with TRS-Care, see "APPENDIX B –Retiree Health Care Plan."

The District also provides health care coverage for its employees. For a discussion of the District's medical benefit plan, see "APPENDIX B."

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

THE DISTRICT

The District, an independent school district and political subdivision of the State of Texas is located in Wharton County, Texas. Wharton County, along with other governmental entities, have authority to levy ad valorem taxes. See "APPENDIX A - Table 6, Estimated Overlapping Debt."

Administration

The Board of Trustees is the governing body of the District and consists of seven members, who serve three-year staggered terms and all serve without salary. The District is under the administrative supervision of the Superintendent of Schools, who is employed by the Board of Trustees.

District School Operations

As of July 1, 2021, the District owned and operated a high school, a junior high school, and two elementary schools. The following table provides information regarding student enrollment in the District.

	For the Year Ending August 31^(b)				
	<u>2022</u>^(a)	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Student Enrollment	1,925	1,914	2,001	2,017	2,097
Average Daily Attendance	1,829	1,701	1,850	1,916	2,023
Cost Per Student	\$9,804	\$10,330	\$10,127	\$10,003	\$9,084

^(a) Projected.

^(b) The District changed its fiscal year end to June 30 beginning July 1, 2021.

Financial Policies

Special Revenue Funds – accounts for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in the Special Revenue Funds.

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

Internal Service Funds – accounts for the District's self-funded Worker's Compensation Insurance Fund. Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an Internal Service Fund.

Agency Funds – accounts for resources held by the District for others in a custodial capacity. The District's Agency Funds consist of various school activity funds.

Private Purpose Trust Funds - is used to account for donations for scholarship monies. These are donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.

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.

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

Investment Policies

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

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

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

As of June 30, 2021, the District had approximately \$18,079,023 invested with TexPool and \$15,314,080 invested with LoneStar. The market value of such investments is approximately 100% of their book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

TAX MATTERS

FEDERAL INCOME TAX TREATMENT OF THE BONDS

The foregoing discussion of certain United States federal income tax consequences is provided for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning, and disposing of the Bonds, including the applicability and effect of any state, local, or foreign tax laws, and of any proposed changes in applicable laws. For a discussion of the tax consequences relating to the Bonds, see "*TAX MATTERS – Federal Income Tax Treatment of the Bonds*" herein.

Taxation of Interest on the Bonds. Interest on the Bonds is not excluded from gross income for federal income tax purposes.

Tax Consequences Generally. The following is a discussion of material United States federal income tax matters regarding the purchase, ownership and disposition of the Bonds. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code") and existing and proposed Treasury Regulations, revenue rulings, administrative interpretations and judicial decisions, all as currently in effect and all of which are subject to change, possibly with retroactive effect, and subject to different interpretations. Except as specifically set forth in this subsection, this summary deals only with Bonds purchased by a United States holder, as defined below, at original issuance, at par, and held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to such a holder in light of his particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, regulated investment companies or real estate investment trusts, dealers or brokers in securities or foreign currencies, traders in securities that elect the mark-to-market accounting method, persons holding the Bonds as part of a hedging transaction, "straddle," conversion transaction, or other integrated transaction, or United States holders whose functional currency, as defined in Section 985 of the Code, is not the United States dollar. This discussion does not address United States estate tax consequences of holding the Bonds and, except as specifically described, does not address either tax consequences to pension plans or foreign investors or any aspect of state or local taxation with respect to the Bonds. Persons considering the purchase of the Bonds should consult with their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign jurisdiction. The opinion of Bond Counsel with respect to the Bonds will not address such matters.

If a partnership or other entity classified as a partnership for United States federal income tax purposes holds Bonds, the tax treatment of the partnership and each partner generally will depend on the activities of the partnership and the status of the partner. Partnerships acquiring Bonds, and partners in such partnerships, should consult their tax advisors.

United States Holder. As used in the sections below, the term "United States holder" means a beneficial owner of a Bond that is for United States federal income tax purposes (a) an individual citizen or resident of the United States, (b) a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is includible in gross income for United States federal income tax purposes, regardless of its source, or (d) a trust if (i) a court within the United States can exercise primary supervision over the administration of such

trust and one or more United States persons have the authority to control all substantial decisions of such trust or (ii) the trust has in effect a valid election to be treated as a domestic trust for United States federal income tax purposes. Further, as described below, a non-United States holder is any holder of a Bond that is not a United States holder.

THE DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR PERSON. ACCORDINGLY, ALL PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND NON U.S. TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BASED ON THEIR PARTICULAR CIRCUMSTANCES.

Taxation of Interest. Subject to the discussion in “Original Issue Discount” below, interest payable on a Bond generally will be taxable to a United States holder as ordinary interest income at the time it accrues or is received, in accordance with the United States holder’s method of tax accounting. In addition, United States holders that are individuals, estates or trusts generally will be required to pay a 3.8% Medicare tax on their net investment income (including interest from the Bonds), or in the case of estates and trusts, on their net income that is not distributed, in each case to the extent that their total adjusted gross income exceeds applicable thresholds.

Sale, Exchange or Retirement of the Bonds. Upon the sale, retirement or other taxable disposition of a Bond, a United States holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in gross income) and the United States holder’s adjusted tax basis in the Bond. In general, a United States holder’s adjusted tax basis in a Bond will equal the cost of the Bond to that holder, increased by the amount of any earned, but as yet unpaid, interest previously included in income by such holder with respect to such Bond and reduced by any principal payments received by the holder.

Gain or loss recognized on the sale, exchange or retirement of a Bond generally will be capital gain or loss and generally will be long-term capital gain or loss if at the time of sale, exchange or retirement the Bond has been held for more than one year. The deductibility of capital losses is subject to certain limitations. In addition, net investment income for purposes of the 3.8% Medicare tax described above will include gains from the sale or other disposition of the Bonds. Prospective investors should consult their own tax advisor concerning these tax law provisions.

Defeasance or material modification of the terms of any Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Bond generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner’s adjusted tax basis in the Bond. Prospective purchasers of the Bonds are urged to consult their tax advisors regarding the foregoing matters.

Original Issue Discount. “Original issue discount” will arise for United States federal income tax purposes in respect of any Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on such Bond other than qualified stated interest. United States holders of Bonds generally will be required to include any original issue discount in income for United States federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, United States holders of Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Bond Premium. “Premium” generally will arise for United States federal income tax purposes in respect of any Bond purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of its principal amount. Bonds so purchased will be treated for federal income tax purposes as having amortizable bond premium. A holder’s basis in such a Bond must be reduced by the amount of premium that amortizes while such Bond is held by the holder. A United States holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such United States holder, to amortize such premium, using a constant yield method over the term of such Bond. Purchasers of Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

Taxation of Tax-Exempt Investors. Special considerations apply to employee benefit plans and other investors (“Tax-Exempt Investors”) that are subject to tax only on their unrelated business taxable income (“UBTI”). A Tax-Exempt Investor’s income from the Bonds generally will not be treated as UBTI under current law, so long as such Tax-Exempt Investor’s acquisition of such Bonds is not debt-financed. Tax-Exempt Investors should consult with their own tax advisors concerning these special considerations.

In addition, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between an employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. The investment of the assets of the Plans also must satisfy the standards of fiduciary conduct prescribed by ERISA, e.g., prudence and diversification. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bonds.

Non-United States Holders. The following applies to a holder if the holder is a beneficial owner of a Bond and is not a United States holder or a United States partnership (or entity treated as a partnership for United States federal income tax purposes) (hereinafter a “non-United

States holder”). Special rules which will not be addressed herein may apply if a non-United States holder is a “controlled foreign corporation” or a “passive foreign investment company” for United States federal income tax purposes. If a non-United States holder is such an entity, the non-United States holder should consult its tax advisor to determine the tax consequences that may be relevant to the non-United States holder.

Subject to the discussion below under “Foreign Account Tax Compliance Act,” all payments on a Bond made to a non-United States holder and any gain realized on a sale, exchange, or other disposition of a Bond will be exempt from United States federal income and withholding tax, provided that:

- the non-United States holder does not own, actually or constructively, 10% or more of the District’s outstanding capital or profit interests within the meaning of the Code and the Treasury regulations;
- the non-United States holder is not a controlled foreign corporation related, directly or indirectly, to the District through stock ownership;
- the non-United States holder is not a bank whose receipt of interest on the Bond is described in Section 881(c)(3)(A) of the Code;
- the non-United States holder has fulfilled the certification requirement described below;
- such payments are not effectively connected with the conduct by the non-United States holder of a trade or business in the United States; and
- in the case of gain realized on the sale, exchange, or other disposition of a Bond, if the non-United States holder is a nonresident alien individual, the non-United States holder is not present in the United States for 183 or more days in the taxable year of the disposition where certain other conditions are met.

The certification requirement referred to above will be fulfilled if the non-United States holder provides its name and address to the trustee or paying agent on IRS Form W-8BEN or W-8BEN-E, as applicable (or an acceptable substitute), and certifies, under penalties of perjury, that the holder is not a United States person. Prospective investors should consult their tax advisors regarding possible additional reporting requirements.

If the non-United States holder of a Bond is engaged in the conduct of a trade or business in the United States, and if payments on a Bond, or gain realized on its sale, retirement or other taxable disposition of the Bonds are effectively connected with the conduct of such trade or business, and are attributable to a permanent establishment maintained by the non-United States holder in the United States under any applicable tax treaty, the non-United States holder will generally be taxed in the same manner as a United States holder (see “United States Holders” above), except that the non-United States holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from withholding tax and such holder may be subject to an additional, up to 30%, branch profits tax.

FATCA (as defined below) could impose United States withholding tax on payments of interest and proceeds of sale in respect of the Bonds to a non-United States holder that does not comply with certain disclosure requirements related to the non-United States holder. See the “Foreign Account Tax Compliance Act” discussion below.

Non-United States holders should consult their tax advisors with respect to other tax consequences of the ownership of the Bonds.

Information Reporting and Backup Withholding. Information returns may be filed with the IRS in connection with payments on the Bonds and the proceeds from a sale, exchange, or other disposition of the Bonds. Holders may receive statements containing the information reflected on these returns. If the holder is a United States holder, the holder may be subject to United States backup withholding tax on these payments if it fails to provide its taxpayer identification number to the paying agent and comply with certification procedures or otherwise establish an exemption from backup withholding. If the holder is not a United States holder, it may be subject to United States backup withholding tax on these payments unless the holder complies with certification procedures to establish that the holder is not a United States person. The certification procedures required of the holder to claim the exemption from withholding tax on certain payments on the Bonds described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

The amount of any backup withholding made from a payment will be allowable as a credit against the holder’s United States federal income tax liability and may entitle the holder to a refund, provided that the holder timely furnishes the required information to the IRS. United States holders should consult their tax advisors regarding the application of information reporting and backup withholding rules in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if applicable.

Foreign Account Tax Compliance Act. Recent legislation and IRS guidance concerning foreign account tax compliance rules (“FATCA”) impose United States withholding tax on interest paid to certain foreign financial institutions and non-financial foreign entities if certain disclosure requirements related to United States accounts or ownership are not satisfied. No additional amounts will be paid in respect of any such withholding. Non-United States holders and those holding through foreign accounts should consult their tax advisors with respect to FATCA withholding on the Bonds.

Certain State and Local Tax Consequences. In addition to the United States federal income tax consequences described above, prospective investors should consider the potential state and local tax consequences of an investment in the Bonds. State income tax law may vary substantially from state to state, and this discussion does not purport to describe any aspect of the income tax laws of any state or locality. Therefore, potential purchasers should consult their own tax advisors with respect to the various state and local tax consequences of an investment in the Bonds.

There are many events that could affect the value, liquidity and/or marketability of the Bonds after their issuance, including but not limited to a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations, and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). Information will be available free of charge via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB, (1) within six months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A, Tables 1 through 5 and 7 through 10, and (2) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix B hereto or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the official statement, and (ii) audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District’s fiscal year-end is June 30. Accordingly, the District must provide updated information by the last day of December 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. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein 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 certain specified events related to the guarantee, to the MSRB.

Event Notices

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of trustee, if material (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. The District shall notify the MSRB in an electronic format prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with Rule 15c2-12. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB. As used in this section, the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial

obligation” shall not include municipal securities as to which a final official statement (as defined in 15c2-12 Rule) has been provided to the MSRB consistent with the Rule. The District intends the words used in the above 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.

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

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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District’s duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next 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

The District changed its fiscal year end date to June 30, effective June 30, 2021 but failed to file notice of such change. A notice of the change in fiscal year, along with a failure to file notice was filed on December 16, 2020. Otherwise, during the past five years, the District has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

OTHER INFORMATION

Rating

S&P Global Ratings (“S&P”) has assigned its municipal rating of “AAA” to the Bonds by virtue of the guarantee of the Texas Permanent School Fund on the Bonds. An explanation of the rating may be obtained from S&P. S&P generally rates all bonds that are guaranteed by the Permanent School Fund Guarantee Program as “AAA.” The rating reflects only the view of S&P 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 S&P if in the judgment of the company circumstances so warrant. Any such downward revision or withdrawal by such rating may have an adverse effect on the market price of the Bonds. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein. The District’s underlying rating for the Bonds from S&P (without consideration of credit enhancement) is “A+”. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the 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 registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

The Bonds as Legal Investments in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. 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, as amended, requires the Bonds to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. (See “OTHER INFORMATION-Rating” above). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for State banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Matters

The delivery of the Bonds is subject to the approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of a continuing, direct, annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Hunton Andrews Kurth LLP, Bond Counsel to the District (“Bond Counsel”), in substantially the form attached as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

In its capacity as Bond Counsel, Hunton Andrews Kurth LLP, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation into the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel’s role in connection with this Official Statement was limited to reviewing the information describing the Bonds in the Official Statement to verify that such descriptions conform to the provisions of the Order. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

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

USCA Municipal Advisors, LLC (“USCA” or the “Financial Advisor”), a subsidiary of U.S. Capital Advisors, LLC, is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. USCA, 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.

USCA has reviewed the information in this Official Statement in accordance with its responsibilities to the District and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but USCA does not guarantee the accuracy or completeness of such information.

Sale of Bonds

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser”) to purchase the Bonds at the rates shown on the inside cover page of this Official Statement at a price of \$13,264,753.21. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

Verification of Arithmetical Computations

Public Finance Partners LLC, a firm providing verification services, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

The verification performed by Public Finance Partners LLC will be solely based upon data, information and documents provided to Public Finance Partners LLC by the Financial Advisor on behalf of the District. Public Finance Partners LLC has restricted its procedures to verifying the computations provided by the Financial Advisor on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

MISCELLANEOUS

Forward Looking Statements

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

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

Risks Related to Coronavirus

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, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Walker County, also declared a local state of disaster. 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 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 phase 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 allowed 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. Pursuant to GA-36, on June 5, 2021, TEA issued updated guidance indicating school systems cannot require students or staff to wear a mask. 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.

For the 2019-2020 school year, COVID-19 related school closings and/or absenteeism did not impact ADA calculations and school funding so long as a school district committed to support students instructionally while they are at home. In addition to providing educational resources online when classes were suspended, the District delivered online instruction through the end of the school year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."

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 has adopted an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts were provided an ADA grace period for the first two six weeks of Foundation School Program ("FSP") reporting, for the first two six weeks of the 2020-2021 school year. If a district's first two six-weeks average ADA is less than the ADA hold harmless projections (described below), the first two six-week attendance reporting periods for 2020-2021 will be excluded from the calculation of annual ADA and student full-time equivalents ("FTE") for FSP funding purposes and

will be replaced with the ADA and FTE hold harmless projections that were derived using a three-year average trend of final numbers from the 2017-2018 through 2019-2020 school years, unless this projection is both (i) 15% higher and (ii) 100 ADA higher than the 2020-2021 legislative planning estimate (“LPE”) projections provided by the TEA to the State legislature pursuant to Section 48.269 of the Texas Education Code, in which case the 2020-2021 LPS ADA and FTE will be used as the hold harmless projections.

The ADA hold harmless protection was also available for the third six-week attendance reporting period, but only for those districts that allowed on-campus instruction throughout the entire third six-week period, as further described below. The ADA hold harmless methodology will be identical to the methodology used for the first two six-week attendance reporting periods, except that the third six-week period will be examined independent of the first two six-week attendance reporting periods.

The ADA hold harmless protection was recently extended for the remainder of the 2020-21 school year (the fourth, fifth, and sixth six-week attendance reporting periods). In order to qualify, a district must meet certain criteria established by the TEA related to on-campus participation rates during the sixth six-week attendance reporting period. A district would be eligible for the ADA hold harmless protection for the fourth, fifth, and sixth weeks if (1) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than 80% of all students educated during the sixth six-weeks; or (2) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than the on-campus attendance participation rate reported by the district on the October 2020 PEIMS Fall Snapshot. This recent extension also potentially provided ADA hold harmless protection to districts that were not previously eligible for the ADA hold harmless protection during the third six-weeks attendance reporting period as previously discussed. If applicable, a district can now be eligible, if (1) the average on-campus participation rate during the sixth six-weeks reporting period was equal to or greater than 90% of all students education during the sixth six-weeks; or (2) for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate of less than 50%, the average on-campus attendance participation rate during the sixth six-week attendance reporting period must increase by at least 20 percentage points from the on-campus attendance participation rate reported on the district’s October 2020 PEIMS fall snapshot, or for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate equal to or greater than 50%, the average on-campus attendance participation rate during the sixth six-weeks reporting period must be equal to or greater than the on-campus percentage of all students education during the sixth six-weeks that results from adding 45 percentage points to half of the on-campus attendance participation rate reported on the district’s October 2020 PEIMS Fall Snapshot.

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 tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

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

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

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by a proper officer acting in his or her official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements, and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

WHARTON INDEPENDENT SCHOOL DISTRICT

By: /s/ Curtis W. Evans
President, Board of Trustees

Attest:

By: /s/ Christine Stransky
Secretary, Board of Trustees

APPENDIX A
INFORMATION REGARDING THE DISTRICT

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2021 Certified Net Taxable Valuation (100% of Estimated Market Value)	\$ 1,334,011,467 ^(a)
Outstanding Debt (August 1, 2021)	\$ 72,685,000
Plus The Bonds	12,180,000
Less The Refunded Bonds	<u>12,475,000</u>
Total Direct Debt	\$ 72,390,000 ^(b)
As a % of Assessed Valuation	5.426%

^(a) Source: Wharton County Appraisal District.

^(b) Includes the Bonds and excludes the Refunded Bonds.

TABLE 2 - ASSESSED VALUATION BY CATEGORY ^(a)

	Tax Year 2021	Tax Year 2020	Tax Year 2019	Tax Year 2018	Tax Year 2017
Real Property	\$ 1,786,201,538	\$ 1,730,358,069	\$ 1,769,692,199	\$ 1,568,574,557	\$ 1,394,754,416
Personal Property	<u>260,749,555</u>	<u>266,168,833</u>	<u>265,052,604</u>	<u>223,989,737</u>	<u>188,540,137</u>
Gross Value	\$ 2,046,951,093	\$ 1,996,526,902	\$ 2,034,744,803	\$ 1,792,564,294	\$ 1,583,294,553
Less Adjustments ^{(b)(c)}	<u>712,939,626</u>	<u>636,026,220</u>	<u>635,581,016</u>	<u>403,144,758</u>	<u>394,687,067</u>
Net Taxable Value	\$ 1,334,011,467	\$ 1,360,500,682	\$ 1,399,163,787	\$ 1,389,419,536	\$ 1,188,607,486

^(a) Source: Wharton County Appraisal District. Values may differ from those shown elsewhere in the documents due to subsequent additions, deletions, and adjustments to the tax rolls.

^(b) Includes exemptions and productivity loss.

^(c) Excludes Frozen Values of \$131,774,825 for 2021, \$121,145,646 for 2020, \$107,041,903 for 2019, \$94,020,037 for 2018 ad \$90,753,973 for 2017.

TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY; TAX RATE DISTRIBUTION

Fiscal Year End	Tax Year	Taxable Assessed Valuation	Tax Rate	Tax Levy	Percent Collected	
					Current	Total ^(a)
2017	2016	\$ 988,205,514 ^(b)	\$ 1.1970	\$ 11,828,820	97.20%	99.01%
2018	2017	1,188,607,486 ^(b)	1.1970	13,781,716	97.83%	99.79%
2019	2018	1,389,419,536 ^(b)	1.1970	16,202,592	97.82%	99.37%
2020	2019	1,399,163,787 ^(c)	1.2972	17,519,568	94.17%	99.30%
2021	2020	1,360,500,682 ^(c)	1.2864	16,955,323	96.50%	97.94%

^(a) Excludes penalties and interest.

^(b) Source: The District's audited financial statements.

^(c) Source: Wharton County Appraisal District.

Tax Rate Distribution

	2020	2019	2018	2017	2016
Maintenance	\$ 1.0028	\$ 1.0165	\$ 1.0900	\$ 1.1700	\$ 1.1700
Debt Service	<u>0.2836</u>	<u>0.2807</u>	<u>0.1070</u>	<u>0.0270</u>	<u>0.0270</u>
Total	\$ 1.2864	\$ 1.2972	\$ 1.1970	\$ 1.1970	\$ 1.1970

TABLE 4 - TEN LARGEST TAX PAYERS ^(a)

Name	2021 Net Taxable Assessed Valuation	% of Total 2021 Assessed Valuation ^(b)
Colorado Bend II Power LLC	\$ 298,346,753	22.36%
Colorado Bend I Power LLC	68,495,160	5.13%
Nan Ya Plastics Corp USA	32,495,664	2.44%
JM Eagle	30,384,660	2.28%
Wharton County Foods LLC	20,521,616	1.54%
Centerpoint Energy Houston Electric	20,060,910	1.50%
Gulf South Pipeline Co LP	19,550,140	1.47%
Natural Gas Pipeline Co	14,085,110	1.06%
Pierce Ranch GP	13,038,845	0.98%
BUC-EES LTD	8,016,210	0.60%
	<u>\$ 524,995,068</u>	<u>39.355%</u>

^(a) Source: Wharton County Appraisal District.

^(b) As shown in the table above, the top ten taxpayers in the District currently account for approximately 39% of the District's tax base with a single taxpayer, Colorado Bend Power LLC, comprising approximately 27% of the tax base. Adverse developments in economic conditions, especially in the oil, natural gas and power industries, could adversely impact the businesses in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, particularly Colorado Bend Power LLC, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, to raise the tax rate applicable to all District taxpayers, which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Bondholders' Remedies" and "AD VALOREM TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies" in this Official Statement.

TABLE 5 - TAX ADEQUACY ^(a)

Average Annual Debt Service Requirements	\$ 4,058,397
\$ 0.3203 per \$100 AV against the 2021 Net Taxable AV, at 95% collection, produces	\$ 4,059,209
Maximum Annual Debt Service Requirements (2023)	\$ 4,533,580
\$ 0.3578 per \$100 AV against the 2021 Net Taxable AV, at 95% collection, produces	\$ 4,534,489

^(a) Includes the Bonds and excludes the Refunded Bonds.

TABLE 6 - ESTIMATED OVERLAPPING DEBT^(a)

The following summary of estimated ad valorem tax bonds of taxing entities in the District was compiled from a variety of sources listed below. No representation is made with respect to the accuracy or completion of the information obtain from sources other than the District. Furthermore, certain entities listed below may have issued substantial amounts of bonds since the dates shown in this table and may have capital improvement programs requiring the issuance of a substantial amounts of additional bonds. Sources include: The Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas and the Wharton Central Appraisal District.

Taxing Jurisdiction	Total Debt ^(b)	Estimated % Overlapping	Overlapping Debt
Wharton County	\$ -	36.54%	\$ -
City of Wharton	34,304,221	100.00%	34,304,221
Estimated Overlapping Debt			<u>\$ 34,304,221</u>
The District	\$ 72,390,000 ^(c)	100.00%	72,390,000
Total Estimated & Overlapping Debt			<u>\$ 140,998,442</u>

^(a) Source: The Municipal Advisory Council of Texas, as of 6/30/21.

^(b) Gross Debt.

^(c) Includes the Bonds and excludes the Refunded Bonds.

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE 30-Jun	Outstanding Debt Service	Less	The Bonds			Total Debt Service
		Refunded Bond Debt Service	Principal	Interest	Total	
2022	\$ 4,465,114	\$ 223,544	\$ 15,000	\$ 155,573	\$ 170,573	\$ 4,412,143
2023	4,572,613	447,088	-	408,055	408,055	4,533,580
2024	4,571,013	1,342,088	840,000	408,055	1,248,055	4,476,980
2025	4,565,025	1,345,100	885,000	366,055	1,251,055	4,470,980
2026	4,564,763	1,341,838	925,000	321,805	1,246,805	4,469,730
2027	4,562,850	1,340,675	970,000	275,555	1,245,555	4,467,730
2028	4,555,350	1,107,675	785,000	227,055	1,012,055	4,459,730
2029	4,553,200	1,000,575	720,000	187,805	907,805	4,460,430
2030	4,552,300	997,175	750,000	151,805	901,805	4,456,930
2031	4,548,100	1,012,775	805,000	114,305	919,305	4,454,630
2032	4,546,738	1,069,313	870,000	102,230	972,230	4,449,655
2033	4,542,025	1,071,200	890,000	88,310	978,310	4,449,135
2034	4,536,650	1,069,875	900,000	73,180	973,180	4,439,955
2035	4,538,825	1,077,500	925,000	56,980	981,980	4,443,305
2036	4,479,038	1,076,313	940,000	38,480	978,480	4,381,205
2037	4,481,438	1,073,813	960,000	19,680	979,680	4,387,305
2038	3,743,450	-	-	-	-	3,743,450
2039	3,742,594	-	-	-	-	3,742,594
2040	3,723,419	-	-	-	-	3,723,419
2041	3,722,144	-	-	-	-	3,722,144
2042	3,718,344	-	-	-	-	3,718,344
2043	3,717,019	-	-	-	-	3,717,019
2044	3,718,019	-	-	-	-	3,718,019
2045	2,706,244	-	-	-	-	2,706,244
2046	1,455,281	-	-	-	-	1,455,281
	\$ 102,881,551	\$ 16,596,544	\$ 12,180,000	\$ 2,994,928	\$15,174,928	\$ 101,459,936

Average Annual Debt Service Requirements	\$ 4,058,397
Maximum Annual Debt Service Requirements (2023)	\$ 4,533,580

TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Date Authorized	Purpose	Amount Authorized	Heretofore Issued	The Bonds ^(a)	Authorized but Unissued
The District has no authorized but unissued unlimited tax bonds.					

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, FYE 2021		\$	4,412,143 ^(a)
Debt Service Fund, FYE 2021	\$	1,650,031	
Estimated Interest and Sinking Fund Tax Levy @ 98% collection		3,707,591	5,357,622
<hr/>			
Estimated Debt Service Fund Balance, FYE 2022		\$	945,479

^(a) Includes the Bonds and excludes the Refunded Bonds.

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY^{(a)(b)}

FOR FISCAL YEAR END	2020	2019	2018	2017	2016
REVENUES					
Local and Intermediate Sources	\$14,156,810	\$ 15,852,084	\$ 16,717,963	\$ 11,939,502	\$ 10,075,718
State Program Revenues	6,387,177	6,779,827	8,653,945	8,961,491	7,963,340
Federal Program Revenues	334,324	674,802	787,005	233,875	242,174
Total Revenues	<u>\$20,878,311</u>	<u>\$ 23,306,713</u>	<u>\$ 26,158,913</u>	<u>\$ 21,134,868</u>	<u>\$ 18,281,232</u>
EXPENDITURES					
Instruction	\$ 9,781,452	\$ 8,688,605	\$ 10,398,202	\$ 9,542,412	\$ 9,386,490
Instructional Resources & Media Services	645,644	659,400	666,980	521,609	449,447
Curriculum & Staff Development	234,208	321,335	232,943	263,284	304,752
Instructional Leadership	114,088	112,058	109,828	171,234	157,866
School Leadership	1,316,199	1,166,951	1,540,869	1,461,093	1,299,557
Guidance, Counseling, & Evaluation Service	447,414	381,847	400,943	412,484	413,359
Health Services & Social Work Services	207,902	210,668	217,841	198,030	180,087
Student Transportation	905,973	1,337,331	1,124,994	713,353	471,073
Food Services	-	14,250	-	24,728	21,217
Extracurricular Activities	729,278	760,474	906,260	1,045,832	1,055,258
General Administration	1,428,846	1,095,989	888,454	896,105	736,280
Plant Maintenance and Operations	3,325,526	3,339,096	6,162,546	3,094,054	3,134,236
Security and Monitoring Services	209,686	199,215	109,641	97,675	94,503
Data Processing Services	119,805	150,598	112,048	118,743	96,911
Community Services	-	-	-	4,861	6,223
Bond issuance cost/fees	-	-	1,500	-	-
Capital Outlay	799,455	506,182	240,345	2,625,982	903,728
Other Intergovernmental Charges	724,157	273,858	225,043	200,250	192,955
Payments to Fiscal Agen/Member Dist. SSA	292,941	626,650	575,133	516,487	495,157
Total Expenditures	<u>\$21,282,574</u>	<u>\$ 19,844,507</u>	<u>\$ 23,913,570</u>	<u>\$ 21,908,216</u>	<u>\$ 19,399,099</u>
Excess (Deficiency) Rev. Over Exp.	(404,263)	3,462,206	2,245,343	(773,348)	(1,117,867)
Sale of Real or Personal Property	-	11,052	2,800	3,352	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	(1,065,075)	(604,745)	(4,255)
Extraordinary Item (Uses)	-	-	(14,309)	(76,050)	(13,848)
Excess (Deficiency) of Revenues and Other Resources Over Exp. and Other Uses	(404,263)	3,473,258	1,168,759	(1,450,791)	(1,135,970)
Fund Balance - September 1 (Beginning)	14,957,188	11,483,930	10,315,171	11,765,962	12,901,932
Increase (Decrease) in Fund Balance					
Fund Balance - August 31 (Ending)	<u>\$14,552,925</u>	<u>\$ 14,957,188</u>	<u>\$ 11,483,930</u>	<u>\$ 10,315,171</u>	<u>\$ 11,765,962</u>

^(a) Source: District's audited financial reports.^(b) For fiscal year 2021, the District estimates a General Fund balance of \$14,393,536.

TABLE 11 - SUMMARY OF BONDS REFUNDED

	Maturity Date	Par Amount	Call Date	Call Price
U/L Tax Refunding Bonds, Series 2013	2/15/2024	\$ 590,000	2/15/2023	100
	2/15/2025	615,000	2/15/2023	100
	2/15/2026	635,000	2/15/2023	100
	2/15/2027	660,000	2/15/2023	100
	2/15/2028	680,000	2/15/2023	100
	2/15/2029	710,000	2/15/2023	100
	2/15/2030	735,000	2/15/2023	100
	2/15/2031	415,000	2/15/2023	100
U/L Tax Refunding Bonds, Series 2014	2/15/2024	\$ 305,000	2/15/2023	100
	2/15/2025	315,000	2/15/2023	100
	2/15/2026	325,000	2/15/2023	100
	2/15/2027	330,000	2/15/2023	100
	2/15/2028	110,000	2/15/2023	100
	2/15/2031	365,000	2/15/2023	100
	2/15/2032	865,000	2/15/2023	100
	2/15/2033	895,000	2/15/2023	100
	2/15/2034	925,000	2/15/2023	100
	2/15/2035	965,000	2/15/2023	100
	2/15/2036	1,000,000	2/15/2023	100
	2/15/2037	1,035,000	2/15/2023	100
	Total	<u>\$ 12,475,000</u>		

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APPENDIX B

**EXCERPTS FROM THE DISTRICT'S
AUDITED FINANCIAL REPORT
FOR YEAR ENDED
AUGUST 31, 2020**

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WHARTON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2020



Wharton Independent School District
Annual Financial Report
For The Year Ended August 31, 2020

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Wharton Independent School District
Annual Financial Report
For The Year Ended August 31, 2020

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Introductory Section



CERTIFICATE OF BOARD

Wharton Independent School District
Name of School District

Wharton
County

24190402
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2020, at a meeting of the board of trustees of such school district on the 15 day of December, 2020.

Christine R. Strankey
Signature of Board Secretary

Curtis W. Evans
Signature of Board President

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



Financial Section



Harry Afadapa & Associates, PC

Certified Public Accountants

11104 W. Airport Blvd., Suite 117

Stafford, Texas 77477

(346) 219-2665~ www.afadapa.com

Independent Auditor's Report

To the Board of Trustees
Wharton Independent School District
2100 N. Fulton
Wharton, Texas 77488

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 Wharton Independent School District ("the District") as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Wharton Independent School District as of August 31, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020 on our consideration of Wharton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wharton Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

Harry Afadapa
& Associates, PC

Digitally signed by Harry Afadapa & Associates, PC
DN: cn=Harry Afadapa & Associates, PC, o=Harry Afadapa & Associates, PC, ou, email=harry@afadapa.com, c=US
Date: 2021.01.27 13:07:53 -06'00'

Harry Afadapa & Associates, PC

Stafford, Texas
November 30, 2020



WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020

This discussion and analysis of the Wharton Independent School District's financial statements provides a narrative overview of the District's financial activities for the fiscal year ended August 31, 2020. The information presented here should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Wharton Independent School District's finances in a manner similar to private sector business. They present the financial picture of the District from an economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District as well as all liabilities. Additionally, certain eliminations have occurred in regards to interfund activity, payables and receivables.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position over time may serve as a useful indicator of whether the financial position of Wharton Independent School District is improving or deteriorating.

The *statement of activities* presents information showing how the district's net position changed during the most recent fiscal year using full accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the district. Fiduciary funds are not reflected in the district-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements.

District-wide Financial Analysis

The District's net position as of August 31, 2020 and 2019 are summarized as follows:

WHARTON INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities		
	8/31/2020	8/31/2019	Change
Current and other assets	\$ 38,659,001	\$ 48,298,120	\$ (9,639,119)
Capital assets	30,682,641	30,829,652	(147,011)
Deferred outflow of resources	4,506,497	4,052,462	454,035
Total assets	<u>73,848,139</u>	<u>83,180,234</u>	<u>(9,332,095)</u>
Other liabilities	3,267,902	2,392,302	875,600
Long-term liabilities outstanding	66,244,006	68,209,194	(1,965,188)
Deferred inflow of resources	4,920,409	3,414,952	1,505,457
Total liabilities	<u>74,432,317</u>	<u>74,016,448</u>	<u>415,869</u>
Net position:			
Net investment in capital assets	(22,786,991)	(23,645,348)	858,357
Restricted	10,028,970	31,224,657	(21,195,687)
Unrestricted	12,173,843	1,584,477	10,589,366
Total net position	<u>\$ (584,178)</u>	<u>\$ 9,163,786</u>	<u>\$ (9,747,964)</u>

Current and other assets decreased by over \$9.6 million due to the capital project expenditures which was accounted for in the cash and cash equivalent accounts. Other asset increase of \$454,035 includes those associated with Deferred Outflow of resources. Increase in Other liability consists of the inclusion of the current portion of the long term liability of \$1,580,000 which was previously not included in this category, and a reduction in other liabilities. A significant portion of the decrease in long-term liabilities was attributed to the \$1,385,000 payment in debt obligation. As discussed above, deferred inflow of resources also increased by \$1,505,457 base on current determination of GASB 68 and GASB 75 Financial Reporting requirements. As noted earlier, net position may serve over time as a useful indicator of a district's financial position. In the case of Wharton Independent School District, liability exceeded assets by \$584,178 at the close of the most recent fiscal year, August 31, 2020.

The District's net position reflects a negative investment in capital assets when considered in relation to the debt obligation used to acquire those assets that is still outstanding. The District uses capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (\$10,028,970) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net

WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020

position of \$12,173,843 may be used to meet the District's ongoing obligations to educate the school-age children of Wharton.

The District's changes in net position for the fiscal years end August 31, 2020 and 2019 are summarized as follows:

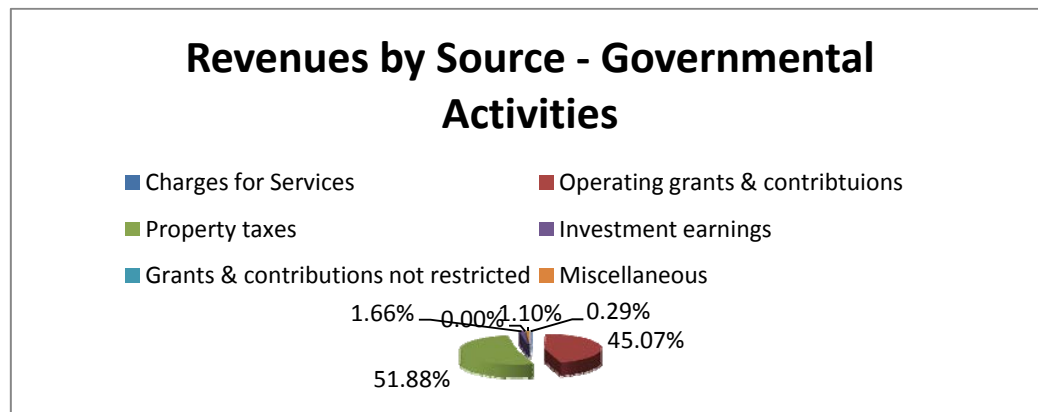
WHARTON INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION			
	Governmental Activities		
	8/31/2020	8/31/2019	Change
Revenues:			
Program Revenues:			
Charges for services	\$ 98,854	\$ 37,123	\$ 61,731
Operating grants & contributions	11,038,559	7,295,091	3,743,468
General Revenues:			
Property taxes	16,935,481	16,268,406	667,075
Investment earnings	562,183	610,626	(48,443)
Grants & contributions not restricted for specific purpose	-	4,724,111	(4,724,111)
Miscellaneous	374,541	1,226,825	(852,284)
Total revenues	29,009,618	30,162,182	(1,152,564)
Expenses:			
Instruction	13,094,201	10,758,338	2,335,863
Instructional resources and media	807,511	676,374	131,137
Curriculum and staff development	340,672	412,319	(71,647)
Instructional leadership	301,818	278,390	23,428
School leadership	1,432,759	1,172,262	260,497
Guidance and counseling	1,211,671	1,096,025	115,646
Social works services	687	-	687
Health services	223,291	210,668	12,623
Student transportation	997,270	1,353,138	(355,868)
Food service	1,304,491	1,225,089	79,402
Extracurricular activities	790,469	764,187	26,282
General administration	1,519,833	1,097,442	422,391
Plant maintenance and operations	3,429,601	3,343,307	86,294
Security and monitoring services	175,510	250,163	(74,653)
Data processing services	129,381	150,598	(21,217)
Interest on long-term debt	2,118,347	973,663	1,144,684
Capital Outlay	9,818,410	6,757,057	3,061,353
Payments related to SSA	768,718	713,075	55,643
Other Intergovernmental Charges	292,941	273,858	19,083
Total expenses	38,757,581	31,505,953	7,251,628
Increase in net position	(9,747,963)	(1,343,771)	(8,404,192)
Net position- beginning	9,163,785	10,507,557	(1,343,772)
Net position ending	\$ (584,178)	\$ 9,163,786	\$ (9,747,964)

WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020

The District's net position from current operations decreased by \$9,747,963 when compared to the prior year net decrease of \$1,343,771. Overall revenue decreased by \$1,152,564 and expenditures increased by \$7,251,628. Some of the key elements of these net differences between 2020 and 2019 are as follows:

- Except for Curriculum & Staff Development; Student Transportation; Data Processing Services, and Security & Monitoring Services all functional codes of the district experienced some of increase in operational costs.
- While there was a substantial decrease in revenue of \$1,152,564 when compared to prior year, there were an increase in overall expenditure of \$7,251,628 thus creating an overall reduction in Net change in Net Position of \$9,747,963.

The following chart shows the percentage of revenues by major source:



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls has been the framework of the District's strong fiscal management and accountability.

Governmental funds. The general government functions are reported in the General and Special Revenue Funds. The focus of the District's *governmental funds* is to provide information on current sources, uses, and balances of *spendable* resources. Such information is useful in determining the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the District's governmental funds reported combined ending fund balances of \$36,746,472, a decrease of \$9,859,063. \$31,786,607 of this total constitutes unassigned fund balance, which is available for spending at the District's discretion. \$729,865 is restricted by external parties, constitutional provisions or enabling legislation to pay debt and for state and federal grants. The remaining \$4,230,000 of fund balance has been committed by the Board of Trustees to be used for construction and capital expenditures for equipment.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance in the general fund was \$10,322,926. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 48% of total general fund expenditures.

WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020

The fund balance of the general fund decreased by \$404,263 for the year ended August 31, 2020 compared to an increase of \$3,473,258 in 2019. Revenue decreased by \$2,428,402 and expenditures increased by \$1,438,067.

General Fund Budgetary Highlights

The Board of Trustees approved a net increase in the expenditure budget for the year by \$1,534,438 of which each category had a slight increase when compared to prior year.

Overall, budget revenue exceeded actual by \$85,915. Local revenue was above budget by \$247,559 primarily in estimated tax collections. The budgeted state revenue was exceeded actual by \$317,798 and the budgeted federal revenue exceeded actual by \$15,676. Expenditures were under budget by \$802,781 of which there were savings in Student Transportation (\$165,401), and Plant Maintenance & Operations (\$344,414).

Debt Administration

Debt administration events during the current fiscal year included:

- No additional bond obligation during the fiscal year 2019/2020 school year, and a pay down amount of \$1,385,000 in principal amount.
- Increase in Net Pension Liability of \$2,028,822.
- Also increase in Net OPEB liability of \$1,643,634.

	Governmental Activities		
	8/31/2020	8/31/2019	Change
General obligation bonds	\$ 53,090,000	\$ 54,475,000	\$ (1,385,000)
Net pension liability	6,482,399	8,511,221	(2,028,822)
Net OPEB liability	8,251,607	6,607,973	1,643,634
	<u>\$ 67,824,006</u>	<u>\$ 69,594,194</u>	<u>\$ (1,770,188)</u>

Capital Assets

	Governmental Activities		
	8/31/2020	8/31/2019	Change
Land	\$ 379,632	\$ 379,632	\$ -
Buildings & Improvements	51,287,396	50,245,772	1,041,624
Furniture and Equipment	1,199,544	1,122,971	76,573
Vehicles	2,911,983	3,068,887	(156,904)
Totals	<u>55,778,555</u>	<u>54,817,262</u>	<u>961,293</u>
Less accumulated depreciation	<u>(24,412,906)</u>	<u>(23,987,610)</u>	<u>(425,296)</u>
	<u>\$ 31,365,649</u>	<u>\$ 30,829,652</u>	<u>\$ 535,997</u>

Capital asset events during the year included:

- Capital improvement District-wide for building and improvement
- Additional Furniture & Equipment were purchased during the fiscal year.

**WHARTON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2020**

Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective and controlled use of the District's resources. The District adopted a balanced budget for 2020-2021. Factors affecting the 2021 budget were as follows:

- \$869,332 increase in Instructional cost for 2020-2021 fiscal year
- \$487,480 increase in School Leadership cost for 2020-2021 fiscal year
- And \$378,690 increase in Facilities Maintenance & Operations in 2020-2021 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Wharton Independent School District, Attention: Chief Financial Officer (CFO), 2100 N. Fulton, Wharton, Texas 77488 or call (979) 532-3612.

Basic Financial Statements



WHARTON INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION**

AUGUST 31, 2020

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	2,283,348
1120	Current Investments		35,247,314
1225	Property Taxes Receivable (Net)		224,628
1240	Due from Other Governments		869,281
1300	Inventories		34,430
Capital Assets:			
1510	Land		379,632
1520	Buildings and Improvements, Net		28,367,175
1530	Furniture and Equipment, Net		1,935,834
1000	Total Assets		<u>69,341,642</u>
DEFERRED OUTFLOWS OF RESOURCES:			
	Deferred Outflow Related to Pensions		3,287,498
	Deferred Outflow Related to OPEB		1,218,999
1700	Total Deferred Outflows of Resources		<u>4,506,497</u>
LIABILITIES:			
2110	Accounts Payable		457,265
2165	Accrued Liabilities		1,086,922
2300	Unearned Revenue		143,715
Noncurrent Liabilities:			
2501	Due Within One Year		1,580,000
2502	Due in More Than One Year		51,510,000
2540	Net Pension Liability		6,482,399
2545	Net OPEB Liability		8,251,607
2000	Total Liabilities		<u>69,511,908</u>
DEFERRED INFLOWS OF RESOURCES:			
	Deferred Inflow Related to Pensions		1,350,642
	Deferred Inflow Related to OPEB		3,569,767
2600	Total Deferred Inflows of Resources		<u>4,920,409</u>
NET POSITION:			
3200	Net Investment in Capital Assets		(22,786,991)
Restricted For:			
3850	Debt Service		190,662
3890	Other Purposes		9,838,308
3900	Unrestricted		12,173,843
3000	Total Net Position	\$	<u>(584,178)</u>

The accompanying notes are an integral part of this statement.



WHARTON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 13,094,201	\$ --	\$ 5,617,977	\$ (7,476,224)
12	Instructional Resources and Media Services	807,511	--	206,581	(600,930)
13	Curriculum and Staff Development	340,672	--	149,463	(191,209)
21	Instructional Leadership	301,818	--	222,014	(79,804)
23	School Leadership	1,432,759	--	444,561	(988,198)
31	Guidance, Counseling, & Evaluation Services	1,211,671	--	785,474	(426,197)
32	Social Work Services	687	--	--	(687)
33	Health Services	223,291	--	71,142	(152,149)
34	Student Transportation	997,270	--	293,482	(703,788)
35	Food Service	1,304,491	98,854	1,077,288	(128,349)
36	Cocurricular/Extracurricular Activities	790,469	--	231,926	(558,543)
41	General Administration	1,519,833	--	453,158	(1,066,675)
51	Facilities Maintenance and Operations	3,429,601	--	978,888	(2,450,713)
52	Security and Monitoring Services	175,510	--	67,699	(107,811)
53	Data Processing Services	129,381	--	36,751	(92,630)
72	Interest on Long-term Debt	2,118,347	--	26,710	(2,091,637)
81	Capital Outlay	9,818,410	--	127,138	(9,691,272)
93	Payments Related to Shared Services Arrangements	768,718	--	248,307	(520,411)
99	Other Intergovernmental Charges	292,941	--	--	(292,941)
TG	Total Governmental Activities	<u>38,757,581</u>	<u>98,854</u>	<u>11,038,559</u>	<u>(27,620,168)</u>
TP	Total Primary Government	<u>\$ 38,757,581</u>	<u>\$ 98,854</u>	<u>\$ 11,038,559</u>	<u>(27,620,168)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				12,993,417
DT	Property Taxes, Levied for Debt Service				3,942,064
IE	Investment Earnings				562,183
MI	Miscellaneous				374,541
TR	Total General Revenues				<u>17,872,205</u>
CN	Change in Net Position				(9,747,963)
NB	Net Position - Beginning				9,163,785
NE	Net Position - Ending				<u>\$ (584,178)</u>

The accompanying notes are an integral part of this statement.

WHARTON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ (2,236,352)	\$ 493,443
1120 <i>Current Investments</i>	14,284,299	31,302
1225 <i>Taxes Receivable, Net</i>	24,431	200,197
1240 <i>Due from Other Governments</i>	496,250	--
1260 <i>Due from Other Funds</i>	3,254,104	--
1300 <i>Inventories</i>	--	--
1000 Total Assets	<u>15,822,732</u>	<u>724,942</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 340,447	\$ --
2150 <i>Payroll Deductions & Withholdings</i>	7,001	--
2160 <i>Accrued Wages Payable</i>	842,025	--
2170 <i>Due to Other Funds</i>	--	--
2200 <i>Accrued Expenditures</i>	17,687	--
2300 <i>Unearned Revenue</i>	62,646	200,197
2000 Total Liabilities	<u>1,269,806</u>	<u>200,197</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3415 <i>Long-Term Loans/Notes Receivable</i>	--	283,250
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--
3480 <i>Retirement of Long-Term Debt</i>	--	190,662
3490 <i>Other Restrictions of Fund Balance</i>	--	--
Committed Fund Balances:		
3510 <i>Construction</i>	2,730,000	--
3530 <i>Capital Expenditures for Equipment</i>	750,000	--
Assigned Fund Balances:		
3590 <i>Other Assigned Fund Balance</i>	750,000	--
3600 Unassigned	10,322,926	50,833
Unassigned, Reported in Nonmajor:		
3610 <i>Special Revenue Funds</i>	--	--
3000 Total Fund Balances	<u>14,552,926</u>	<u>524,745</u>
4000 Total Liabilities and Fund Balances	<u>\$ 15,822,732</u>	<u>\$ 724,942</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 3,539,150	\$ 487,108	\$ 2,283,349
20,931,713	--	35,247,314
--	--	224,628
--	373,031	869,281
--	--	3,254,104
--	34,430	34,430
<u>24,470,863</u>	<u>894,569</u>	<u>41,913,106</u>
\$ --	\$ 116,818	\$ 457,265
--	4,096	11,097
--	202,447	1,044,472
3,250,875	3,229	3,254,104
--	13,666	31,353
--	105,500	368,343
<u>3,250,875</u>	<u>445,756</u>	<u>5,166,634</u>
--	--	283,250
--	60,436	60,436
--	--	190,662
--	195,517	195,517
--	--	2,730,000
--	--	750,000
--	--	750,000
21,219,988	--	31,593,747
--	192,860	192,860
<u>21,219,988</u>	<u>448,813</u>	<u>36,746,472</u>
\$ <u>24,470,863</u>	\$ <u>894,569</u>	\$ <u>41,913,106</u>



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

Total fund balances - governmental funds balance sheet	\$ 36,746,472
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	30,682,641
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	224,628
Payables for bond principal which are not due in the current period are not reported in the funds.	(53,090,000)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(6,482,399)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(1,350,642)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	3,287,498
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(8,251,607)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(3,569,767)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	1,218,999
Rounding difference	(1)
Net position of governmental activities - Statement of Net Position	\$ <u>(584,178)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 14,156,810	\$ 3,759,887
5800 <i>State Program Revenues</i>	6,387,177	26,710
5900 <i>Federal Program Revenues</i>	334,324	--
5020 <i>Total Revenues</i>	<u>20,878,311</u>	<u>3,786,597</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	9,781,452	--
0012 <i>Instructional Resources and Media Services</i>	645,644	--
0013 <i>Curriculum and Staff Development</i>	234,208	--
0021 <i>Instructional Leadership</i>	114,088	--
0023 <i>School Leadership</i>	1,316,199	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	447,414	--
0032 <i>Social Work Services</i>	683	--
0033 <i>Health Services</i>	207,219	--
0034 <i>Student Transportation</i>	905,973	--
0035 <i>Food Service</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	729,278	--
0041 <i>General Administration</i>	1,428,846	--
0051 <i>Facilities Maintenance and Operations</i>	3,325,526	--
0052 <i>Security and Monitoring Services</i>	209,686	--
0053 <i>Data Processing Services</i>	119,805	--
0071 <i>Principal on Long-term Debt</i>	--	1,385,000
0072 <i>Interest on Long-term Debt</i>	--	2,118,347
0081 <i>Capital Outlay</i>	799,455	--
0093 <i>Payments to Shared Service Arrangements</i>	724,157	--
0099 <i>Other Intergovernmental Charges</i>	292,941	--
6030 <i>Total Expenditures</i>	<u>21,282,574</u>	<u>3,503,347</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>		
1100 <i>Expenditures</i>	<u>(404,263)</u>	<u>283,250</u>
Other Financing Sources and (Uses):		
7915 <i>Transfers In</i>	--	--
8911 <i>Transfers Out</i>	--	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--
1200 <i>Net Change in Fund Balances</i>	<u>(404,263)</u>	<u>283,250</u>
0100 <i>Fund Balances - Beginning</i>	<u>14,957,189</u>	<u>241,495</u>
3000 <i>Fund Balances - Ending</i>	<u>\$ 14,552,926</u>	<u>\$ 524,745</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 259,554	\$ 255,456	\$ 18,431,707
--	1,811,495	8,225,382
--	2,478,860	2,813,184
<u>259,554</u>	<u>4,545,811</u>	<u>29,470,273</u>
--	2,256,199	12,037,651
--	114,853	760,497
--	73,889	308,097
--	166,010	280,098
--	19,832	1,336,031
--	616,034	1,063,448
--	--	683
--	--	207,219
--	840	906,813
--	1,219,912	1,219,912
--	3,663	732,941
--	--	1,428,846
--	4,895	3,330,421
--	--	209,686
--	--	119,805
--	--	1,385,000
--	--	2,118,347
10,022,727	--	10,822,182
--	44,561	768,718
--	--	292,941
<u>10,022,727</u>	<u>4,520,688</u>	<u>39,329,336</u>
<u>(9,763,173)</u>	<u>25,123</u>	<u>(9,859,063)</u>
--	13,000	13,000
--	(13,000)	(13,000)
--	--	--
<u>(9,763,173)</u>	<u>25,123</u>	<u>(9,859,063)</u>
30,983,161	423,690	46,605,535
<u>\$ 21,219,988</u>	<u>\$ 448,813</u>	<u>\$ 36,746,472</u>

WHARTON INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds	\$ (9,859,063)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,220,181
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,367,193)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(460,648)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,385,000
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(666,234)
Other reconciling items	(6)
Change in net position of governmental activities - Statement of Activities	<u>\$ (9,747,963)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Nonexpendable Trust Fund	Expendable Trust Fund	Agency Funds
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ --	\$ 148,474
1800 <i>Restricted Assets</i>	40,000	53,393	--
1000 <i>Total Assets</i>	<u>40,000</u>	<u>53,393</u>	<u>148,474</u>
LIABILITIES:			
Current Liabilities:			
2150 <i>Payroll Deduction & Withholdings</i>	\$ --	\$ --	\$ (701)
2190 <i>Due to Student Groups</i>	--	--	149,175
2000 <i>Total Liabilities</i>	<u>--</u>	<u>--</u>	<u>148,474</u>
NET POSITION:			
3800 <i>Held in Trust for Investments</i>	40,000	--	--
3800 <i>Held in Trust</i>	--	53,393	--
3000 <i>Total Net Position</i>	<u>\$ 40,000</u>	<u>\$ 53,393</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

WHARTON INDEPENDENT SCHOOL DISTRICT*STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**FIDUCIARY FUNDS**FOR THE YEAR ENDED AUGUST 31, 2020*

	Nonexpendable Trust Funds	Expendable Trust Fund
Additions:		
Investment Income	\$ --	\$ 360
Gifts and Bequests	--	788
Total Additions	--	1,148
Deductions:		
Scholarship Awards	--	2,500
Administrative Expenses	--	--
Total Deductions	--	2,500
Change in Net Position	--	(1,352)
Net Position-Beginning of the Year	40,000	54,745
Net Position-End of the Year	<u>\$ 40,000</u>	<u>\$ 53,393</u>

The accompanying notes are an integral part of this statement.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. This is a government fund with budgetary control which is used to show transactions resulting from operations of on-going organizations and activities from a variety of revenue sources for which fund balance is controlled by and retained for use of the District.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

Debt Service Fund - A debt service fund is a government fund, with budgetary control, that must be used to account for general long-term debt principal and interest for debt issues and other long-term debts for which a tax has been dedicated.

In addition, the District reports the following fund types:

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

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

b. Measurement Focus, Basis of Accounting

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

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

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

3. Financial Statement Amounts

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.

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes,

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

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

b. Inventories and Prepaid Items

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

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

c. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Deferred Outflows and Inflows of Resources

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

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

e. Receivable and Payable Balances

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

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

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

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

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

j. Net Position Flow Assumption

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

k. Fund Balance Flow Assumptions

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

4. Pensions

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

5. Other Post-Employment Benefits

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

6. Implementation of New Standards

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

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

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

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

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

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

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

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

GASB Statement No. 92, *Omnibus 2020*

Although the effective date for the majority of GASB Statement No. 92, Omnibus 2020 has been postponed by GASB Statement No. 95 for one year, the District has adopted paragraph 11 of Statement 92 with respect to reinsurance recoveries. Paragraph 11 states that "amounts that (a) are recoverable from reinsurers or excess insurers and (b) relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be. The District has also adopted paragraph 13 of Statement 92 in regards to changing all uses of the terms *derivative* and *derivatives* in existing standards to *derivative instrument* and *derivative instruments*, respectively. The provisions in paragraphs 11 and 13 were excluded from the scope of Statement 95 because paragraph 11 retains the reporting option, and thus only clarifies that an option exists, and paragraph 13 imposes no burden on the District. As such, this statement does not impact the District

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32.*

The District has adopted paragraphs 4 and 5 of GASB Statement No. 92. Paragraph 4 states that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (For example, certain Section 457 plans), if the primary government performs the duties that a governing board typically would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board. Paragraph 5 states that the financial burden criterion in paragraph 7 of Statement 84 is applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. The requirements in paragraphs 6 - 9 of this Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

7. Future Implementation of New Standards

In order to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic, GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* is currently in effect to postpone the effective dates of certain provisions in Statements that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later.

The effective dates for the following pronouncements are postponed by one year:

Statement No. 84, *Fiduciary Activities*

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Statement No. 90, *Majority Equity Interests*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus 2020*

Statement No. 93, *Replacement of Interbank Offered Rates*

The effective dates for the following pronouncements are postponed by 18 months:

Statement No. 87, *Leases*

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2020, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,283,348 and the bank balance was \$2,591,231. The District's cash deposits at August 31, 2020 and during the year ended August 31, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The 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 and 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.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

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 District's investment at August 31, 2020 is shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	N/A	\$ 14,315,601
TexPool	N/A	20,931,713
Total Investments		<u>\$ 35,247,314</u>

3. Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

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.

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

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government Overnight, Corporate Overnight and Corporate Overnight Plus maintain a net asset value of one dollar.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

C. Disaggregated Receivables

Receivables at August 31, 2020 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible amounts are as follows and are scheduled for collection within one year:

	General Fund	Debt Service	Other Governmental	Totals
Taxes	\$ 735,544	\$ 219,158	\$ --	\$ 954,702
Less allowance	(711,113)	(18,961)	--	(730,074)
Net taxes receivable	\$ 24,431	\$ 200,197	\$ --	\$ 224,628

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

	General Fund	Debt Service	Other Governmental	Totals
Due from other Governments:				
Due from Tax Assessor	\$ --	\$ --	\$ --	\$ --
Texas Education Agency	496,250	--	373,031	869,281
	<u>\$ 496,250</u>	<u>\$ --</u>	<u>\$ 373,031</u>	<u>\$ 896,281</u>

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 379,632	\$ --	\$ --	\$ 379,632
Construction in progress	--	67,545	--	67,545
Total capital assets not being depreciated	<u>379,632</u>	<u>67,545</u>	<u>--</u>	<u>447,177</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	50,245,772	1,089,521	--	51,335,293
Equipment	1,122,971	105,406	7,867	1,220,510
Vehicles	3,068,887	50,847	--	3,119,734
Total capital assets being depreciated	<u>54,437,630</u>	<u>1,245,774</u>	<u>7,867</u>	<u>55,675,537</u>
Less accumulated depreciation for:				
Buildings and improvements	(20,830,703)	(1,041,212)	--	(21,871,915)
Equipment	(514,154)	(71,356)	--	(585,510)
Vehicles	(1,594,447)	(232,320)	(7,867)	(1,818,900)
Total accumulated depreciation	<u>(22,939,304)</u>	<u>(1,344,888)</u>	<u>(7,867)</u>	<u>(24,276,325)</u>
Total capital assets being depreciated, net	<u>31,498,326</u>	<u>(99,114)</u>	<u>--</u>	<u>31,399,212</u>
Governmental activities capital assets, net	<u>\$ 31,877,958</u>	<u>\$ (31,569)</u>	<u>\$ --</u>	<u>\$ 31,846,389</u>
Instruction	\$ 634,918			
Instructional Resources and Media Services	39,917			
Curriculum and Staff Development	24,334			
Instructional Leadership	16,430			
School Leadership	69,183			
Guidance, Counseling, & Evaluation Services	64,684			
Social Work Services	--			
Health Services	12,433			
Student Transportation	79,858			
Food Services	72,301			
Extracurricular Activities	45,100			
General Administration	64,767			
Plant Maintenance and Operations	197,311			
Security and Monitoring Services	14,764			
Data Processing Services	8,888			
Community Services	--			
	<u>\$ 1,344,888</u>			

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2020, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Capital Project Fund	\$ 3,250,875	Capital projects expenditures
General Fund	Special Revenue Funds	3,229	For transfer of federal receipts
	Total	<u>\$ 3,254,104</u>	

All amounts due are scheduled to be repaid within one year.

F. Long-Term Obligations

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are direct obligations and pledge the full faith and credit of the District and are comprised of current interest and capital appreciation bonds as noted below:

Advance Refunding

General Obligation Bonds	Sale Date	Original Borrowed	Interest Rate to Maturity	Final Maturity	Outstanding Balance
Series 2013, Refunding Bond	02/15/2013	8,894,997	3.0 -4.75%	08/15/2031	6,680,000
Series 2014, School Bonds	02/01/2014	9,204,999	3.0 -4.0%	08/15/2037	8,270,000
Series 2016, Refunding	02/01/2016	3,225,000	3.0 -4.75%	08/15/2037	3,225,000
Series 2019, U/L Tax Bond	02/15/2019	14,855,000	3.0 -5%	08/31/2044	14,560,000
Series 2019A, U/L Tax Bond	12/03/2019	20,685,000	3.0 -5%	08/31/2045	20,355,000
					<u>\$ 53,090,000</u>

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2020, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 54,475,000	\$ --	\$ 1,385,000	\$ 53,090,000	\$ 1,580,000
Net OPEB Liability	8,511,221	(135,778)	123,836	8,251,607	--
Net Pension Liability *	6,607,973	310,898	436,472	6,482,399	--
Total governmental activities	<u>\$ 69,594,194</u>	<u>\$ 175,120</u>	<u>\$ 1,945,308</u>	<u>\$ 67,824,006</u>	<u>\$ 1,580,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2020, are as follows:

Year Ending August 31,	Governmental Activities				
	Bonds		Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	Principal	Interest	
2021	\$ 1,580,000	\$ 1,937,914	\$ --	\$ --	\$ 3,517,914
2022	1,665,000	1,863,170	--	--	3,528,170
2023	1,740,000	1,785,045	--	--	3,525,045
2024	1,815,000	1,706,127	--	--	3,521,127

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

2025	1,900,000	1,626,252	--	--	3,526,252
2026-2030	10,775,000	6,835,671	--	--	17,610,671
2031-2035	12,995,000	4,565,517	--	--	17,560,517
2036-2040	11,275,000	2,308,523	--	--	13,583,523
2041-2045	9,345,000	698,752	--	--	10,043,752
Totals	<u>\$ 53,090,000</u>	<u>\$ 23,326,971</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 76,416,971</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2020, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting About TRS then Publications then Financial Reports or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

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.

4. Contributions

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

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%
District's 2019 Employer Contributions	\$ 468,611	
District's 2019 Member Contributions	\$ 1,099,625	
2019 NECE On-Behalf Contributions (state)	\$ 647,549	

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.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

- 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.

5. Actuarial Assumptions

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

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2019	2.63%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions 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 descriptions of these assumptions please see the actuarial valuation report dated November 9, 2018.

6. Discount Rate

A single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25%. The projection of cash flows used to determine 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% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

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:

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

Asset Class	FY 2019 Target Allocation *	New Target Allocation **	Long-Term Expected Geometric Real Rate of Return ***
Global Equity			
USA	18.0%	18.0%	6.4%
Non-U.S. Developed	13.0%	13.0%	6.3%
Emerging Markets	9.0%	9.0%	7.3%
Directional Hedge Funds	4.0%	-	-
Private Equity	13.0%	14.0%	8.4%
Stable Value			
U.S. Treasuries ****	11.0%	16.0%	3.1%
Stable Value Hedge Funds	4.0%	5.0%	4.5%
Absolute Return	0.0%	0.0%	0.0%
Real Return			
Global Inflation Linked Bonds ****	3.0%	-	-
Real Estate	14.0%	15.0%	8.5%
Energy, Natural Resources & Infrastructure	5.0%	6.0%	7.3%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	8.0%	5.8%/6.5%*****
Leverage			
Cash	1.0%	2.0%	2.5%
Asset Allocation Leverage	-	-6.0%	2.7%
Expected Return	100.0%	100.0%	7.23%
* Target allocations are based on the Strategic Asset Allocation as of FY2019 ** New allocations are based on the Strategic Asset Allocation to be implemented FY2020 *** 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1% **** New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds ***** 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility			

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (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:	\$ 9,964,390	\$ 6,482,399	\$ 3,661,315

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

At August 31, 2020, the District reported a liability of \$6,482,399 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:

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

District's proportionate share of the collective net pension liability	\$ 6,482,399
State's proportionate share that is associated with District	<u>9,617,686</u>
Total	<u>\$ 16,100,085</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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 through August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0124701992%. which was an increase (decrease) of 0.0004649640% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation -

- The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas Legislature approved funding for a 13th 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 August 31, 2020, the District recognized pension expense of \$2,617,372 and revenue of \$1,510,803 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,232	\$ 225,079
Changes in actuarial assumptions	2,011,159	831,106
Difference between projected and actual investment earnings	65,091	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	715,405	294,457
Contributions paid to TRS subsequent to the measurement date	468,611	--
Total	<u>\$ 3,287,498</u>	<u>\$ 1,350,642</u>

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

Year Ended August 31	Pension Expense Amount
2021	\$ 378,994
2022	\$ 304,036
2023	\$ 381,877
2024	\$ 356,486
2025	\$ 96,529
Thereafter	\$ (49,677)

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

I. Defined Other Post-Employment Benefit Plans

1. Plan Description

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

2. OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf>, selecting About TRS then Publications then Financial Reports or by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698

3. 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.

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

4. Contributions

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

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution 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%

District's 2020 Employer Contributions		\$ 115,524
District's 2020 Member Contributions		\$ 1,099,625
2019 NECE On-Behalf Contributions (state)		\$ 164,540

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$73.6 million in fiscal year 2019.

5. Actuarial Assumptions

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%, including inflation *
Healthcare Trend Rates	7.30% **
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. ***
Ad Hoc Post-Employment Benefit Changes	None

* Includes inflation at 2.5%.

**7.3% for FY2020, 7.4% for FY 2021, 7.0% for FY 2022, decreasing 0.5% per year to an ultimate rate of 4.5% for FY 2027 and later years.

*** 25% of pre-65 retirees are assumed to discontinue coverage at age 65.

6. Discount Rate

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

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (1.63%)	Current Single Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
District's proportionate share of net OPEB liability	\$ 9,962,336	\$ 8,251,607	\$ 6,913,300

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

At August 31, 2020, the District reported a liability of \$8,251,607 for its proportionate share of the TRS's Net OPEB liability. 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	\$ 8,251,607
State's proportionate share that is associated with the District	\$ 10,964,539
Total	\$ 19,216,146

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 OPEB relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

At August 31, 2020 the District's proportion of the collective net OPEB liability was 0.0174484928, which was an increase (decrease) of 0.0004024980% from its proportion measured as of August 31, 2018.

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

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
District's proportionate share of net OPEB liability	\$ 6,731,371	\$ 8,251,607	\$ 10,288,023

9. Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability (TOL) since the prior measurement period:

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

For the year ended August 31, 2020, the District recognized OPEB expense of \$432,780 and revenue of \$288,980 for support provided by the State.

At August 31, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 404,811	\$ 1,350,288
Changes in actuarial assumptions	458,312	2,219,479
Differences between projected and actual investment earnings	891	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	239,461	--
Contributions paid to TRS subsequent to the measurement date	115,524	--
Total	\$ 1,218,999	\$ 3,569,767

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2020

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

Year ended August 31,	OPEB Expense Amount
2021	\$ (425,187)
2022	\$ (425,187)
2023	\$ (425,475)
2024	\$ (425,640)
2025	\$ (425,597)
Thereafter	\$ (339,206)

10. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the current fiscal year ended August 31, 2020, the subsidy payment received by TRS-Care on behalf of the District was \$66,520

J. Employee Health Care Coverage

During the year ended August 31, 2020, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$397 per pay period per employee and dependents to the Plan. All premiums were paid to a self-funded pool. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable, and terms of coverage and premium costs are included in the contractual provisions.

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

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2020.

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services to the member districts listed below. All services are provided by the fiscal agent.

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in 2020.

Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Wharton ISD	\$ 668,768
Boling ISD	265,710
East Bernard ISD	206,006
Total	<u>\$ 1,140,484</u>

M. Disaggregated Revenue

During the year ended August 31, 2020, revenues reported in the fund financial statements from local sources consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Property taxes	\$ 13,533,066	\$ 3,719,666	\$ --	\$ --	\$ 17,252,732
Penalties & interest	121,197	22,201	--	--	143,398
Athletic receipts	55,032	--	--	--	55,032
Rent	7,865	--	--	--	7,865
Investment earnings	294,609	18,020	249,554	--	562,183
Insurance Recovery	56,103	--	--	--	56,103
Donations, Gifts & Bequests	680	--	10,000	100,000	110,680
Other	88,258	--	--	56,601	144,859
Food service fees	--	--	--	98,855	98,855
	<u>\$ 14,156,810</u>	<u>\$ 3,759,887</u>	<u>\$ 259,554</u>	<u>\$ 255,456</u>	<u>\$ 18,431,707</u>

Required Supplementary Information

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



WHARTON INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget
		Budgeted Amounts		Actual	Positive (Negative)
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 13,129,505	\$ 13,909,251	\$ 14,156,810	\$ 247,559
5800	State Program Revenues	6,705,000	6,704,975	6,387,177	(317,798)
5900	Federal Program Revenues	350,000	350,000	334,324	(15,676)
5020	Total Revenues	20,184,505	20,964,226	20,878,311	(85,915)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	9,761,631	9,531,204	9,781,452	(250,248)
0012	Instructional Resources and Media Services	692,042	814,450	645,644	168,806
0013	Curriculum and Staff Development	352,715	342,084	234,208	107,876
	Total Instruction & Instr. Related Services	10,806,388	10,687,738	10,661,304	26,434
Instructional and School Leadership:					
0021	Instructional Leadership	117,135	117,126	114,088	3,038
0023	School Leadership	1,187,542	1,256,627	1,316,199	(59,572)
	Total Instructional & School Leadership	1,304,677	1,373,753	1,430,287	(56,534)
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	452,167	452,263	447,414	4,849
0032	Social Work Services	--	--	683	(683)
0033	Health Services	197,255	197,414	207,219	(9,805)
0034	Student (Pupil) Transportation	971,654	1,071,374	905,973	165,401
0035	Food Services	15,000	15,000	--	15,000
0036	Cocurricular/Extracurricular Activities	754,069	722,838	729,278	(6,440)
	Total Support Services - Student (Pupil)	2,390,145	2,458,889	2,290,567	168,322
Administrative Support Services:					
0041	General Administration	1,167,507	1,438,496	1,428,846	9,650
	Total Administrative Support Services	1,167,507	1,438,496	1,428,846	9,650
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,132,483	3,669,940	3,325,526	344,414
0052	Security and Monitoring Services	203,354	203,354	209,686	(6,332)
0053	Data Processing Services	137,021	141,303	119,805	21,498
	Total Support Services - Nonstudent Based	3,472,858	4,014,597	3,655,017	359,580
Debt Service:					
0073	Bond Issuance Costs and Fees	1,500	1,500	--	1,500
	Total Debt Service	1,500	1,500	--	1,500
Capital Outlay:					
0081	Capital Outlay	--	1,068,953	799,455	269,498
	Total Capital Outlay	--	1,068,953	799,455	269,498
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist. -SSA	747,067	747,067	724,157	22,910
0099	Other Intergovernmental Charges	297,363	294,363	292,941	1,422
	Total Intergovernmental Charges	1,044,430	1,041,430	1,017,098	24,332
6030	Total Expenditures	20,187,505	22,085,355	21,282,574	802,781

WHARTON INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(3,000)</u>	<u>(1,121,129)</u>	<u>(404,263)</u>	<u>716,866</u>
1200	Net Change in Fund Balance	<u>(3,000)</u>	<u>(1,121,129)</u>	<u>(404,263)</u>	<u>716,866</u>
0100	Fund Balance - Beginning	<u>14,957,189</u>	<u>14,957,189</u>	<u>14,957,189</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 14,954,189</u>	<u>\$ 13,836,060</u>	<u>\$ 14,552,926</u>	<u>\$ 716,866</u>

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

Measurment period ending August 31,	Fiscal Year									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
District's proportion of the net pension liability (asset)	0.0124702%	0.0120052%	0.0130985%	0.0116409%	0.0123346%	0.0084696%	--	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 6,482,399	\$ 6,607,973	\$ 4,188,201	\$ 4,398,937	\$ 4,360,117	\$ 2,262,347	--	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	9,617,686	10,942,183	6,469,299	7,716,776	7,730,265	6,671,691	--	--	--	--
Total	<u>\$ 16,100,085</u>	<u>\$ 17,550,156</u>	<u>\$ 10,657,500</u>	<u>\$ 12,115,713</u>	<u>\$ 12,090,382</u>	<u>\$ 8,934,038</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 13,600,906	\$ 13,600,922	\$ 13,466,446	\$ 13,523,052	\$ 12,450,291	\$ 12,444,224	--	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	47.66%	48.58%	31.10%	32.53%	35.02%	18.18%	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%	--	--	--	--

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

WHARTON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS **

	Fiscal Year									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 468,611	\$ 208,408	\$ 203,461	\$ 206,563	\$ 206,928	\$ 202,446	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(468,611)	(208,408)	(203,461)	(206,563)	(206,928)	(202,446)	--	--	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 14,280,842	\$ 13,600,922	\$ 13,466,446	\$ 13,523,052	\$ 12,450,291	\$ 12,444,224	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	3.28%	1.53%	1.51%	1.53%	1.66%	1.63%	--	--	--	--

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

WHARTON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS **

	Measurement Year Ended									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
District's proportion of the collective net OPEB liability	0.0174485%	0.0170460%	0.0170105%	--	--	--	--	--	--	--
District's proportionate share of the collective net OPEB liability	\$ 8,251,607	\$ 8,511,221	\$ 7,397,247	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State proportionate share of the collective net OPEB liability associated with the District	\$ 10,964,539	\$ 11,038,418	\$ 10,079,874	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Total	<u>\$ 19,216,146</u>	<u>\$ 19,549,639</u>	<u>\$ 17,477,121</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 13,600,906	\$ 13,600,922	\$ 11,380,380	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	60.67%	62.58%	65.00%	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total OPEB liability	2.66%	1.57%	0.91%	--	--	--	--	--	--	--

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

WHARTON INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS**TEACHER RETIREMENT SYSTEM OF TEXAS**LAST TEN FISCAL YEARS **

	Fiscal Year Ended									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required District contribution	\$ 115,524	\$ 102,007	\$ 100,978	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	(115,524)	(102,007)	(100,978)	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 14,280,842	\$ 13,600,922	\$ 11,380,380	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	0.81%	0.75%	0.89%	--	--	--	--	--	--	--

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

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2020

Budget

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

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

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

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

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

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

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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



*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

WHARTON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2020

Data Control Codes	211 ESEA Title I Improving Basic Programs	226 IDEA-Part B Discretionary	240 National School Breakfast/Lunch Program	242 Summer Food Service Program
ASSETS:				
1110 Cash and Cash Equivalents	\$ (109,937)	\$ --	\$ 82,411	\$ 33,943
1240 Due from Other Governments	158,177	--	--	--
1300 Inventories	--	--	34,430	--
1000 Total Assets	<u>48,240</u>	<u>--</u>	<u>116,841</u>	<u>33,943</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ --	\$ --	\$ --	\$ --
2150 Payroll Deductions & Withholdings	--	--	(2,119)	3,649
2160 Accrued Wages Payable	43,543	--	23,018	--
2170 Due to Other Funds	--	--	--	--
2200 Accrued Expenditures	4,697	--	492	--
2300 Unearned Revenue	--	--	--	--
2000 Total Liabilities	<u>48,240</u>	<u>--</u>	<u>21,391</u>	<u>3,649</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	13,231	47,205
3490 Other Restrictions of Fund Balance	--	--	--	--
Unassigned, Reported in Nonmajor:				
3610 Special Revenue Funds	--	--	82,219	(16,911)
3000 Total Fund Balances	<u>--</u>	<u>--</u>	<u>95,450</u>	<u>30,294</u>
4000 Total Liabilities and Fund Balances	<u>\$ 48,240</u>	<u>\$ --</u>	<u>\$ 116,841</u>	<u>\$ 33,943</u>

244 Career and Tech Education Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Emergency Impact Aid LEA
\$ --	\$ (17,200)	\$ --	\$ --	\$ 105,148
--	20,223	--	--	(2,671)
--	--	--	--	--
--	3,023	--	--	102,477
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	3,023	--	--	102,477
--	3,023	--	--	102,477
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
\$ --	\$ 3,023	\$ --	\$ --	\$ 102,477

WHARTON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2020

Data Control Codes	313 IDEA-B Formula	314 IDEA-B Preschool	410 State Textbook Fund	427 State Funded Special Revenue Fund
ASSETS:				
1110 Cash and Cash Equivalents	\$ --	\$ 1,907	\$ --	\$ 3,229
1240 Due from Other Governments	80,484	--	116,818	--
1300 Inventories	--	--	--	--
1000 Total Assets	<u>80,484</u>	<u>1,907</u>	<u>116,818</u>	<u>3,229</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ --	\$ --	\$ 116,818	\$ --
2150 Payroll Deductions & Withholdings	--	--	--	--
2160 Accrued Wages Payable	73,456	1,721	--	--
2170 Due to Other Funds	--	--	--	3,229
2200 Accrued Expenditures	7,028	186	--	--
2300 Unearned Revenue	--	--	--	--
2000 Total Liabilities	<u>80,484</u>	<u>1,907</u>	<u>116,818</u>	<u>3,229</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	--	--
3490 Other Restrictions of Fund Balance	--	--	--	--
Unassigned, Reported in Nonmajor:				
3610 Special Revenue Funds	--	--	--	--
3000 Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
4000 Total Liabilities and Fund Balances	<u>\$ 80,484</u>	<u>\$ 1,907</u>	<u>\$ 116,818</u>	<u>\$ 3,229</u>

	429 State Funded Special Revenue Fund	437 Special Education	461 Campus Activity Funds	499 Wharton County Community Foundation	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$	297	\$ 352,741	\$ 33,783	\$ 786	\$ 487,108
	--	--	--	--	373,031
	--	--	--	--	34,430
	<u>297</u>	<u>352,741</u>	<u>33,783</u>	<u>786</u>	<u>894,569</u>
\$	--	\$ --	\$ --	\$ --	\$ 116,818
	297	2,269	--	--	4,096
	--	60,709	--	--	202,447
	--	--	--	--	3,229
	--	1,263	--	--	13,666
	--	--	--	--	105,500
	<u>297</u>	<u>64,241</u>	<u>--</u>	<u>--</u>	<u>445,756</u>
	--	--	--	--	60,436
	--	170,240	39,572	(14,295)	195,517
	--	118,260	(5,789)	15,081	192,860
	--	288,500	33,783	786	448,813
\$	<u>297</u>	<u>352,741</u>	<u>33,783</u>	<u>786</u>	<u>894,569</u>

WHARTON INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	211 ESEA Title I Improving Basic Programs	226 IDEA-Part B Discretionary	240 National School Breakfast/Lunch Program	242 Summer Food Service Program
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ 98,854	\$ --
5800 <i>State Program Revenues</i>	--	--	44,351	1,223
5900 <i>Federal Program Revenues</i>	540,839	82,297	969,009	62,712
5020 <i>Total Revenues</i>	<u>540,839</u>	<u>82,297</u>	<u>1,112,214</u>	<u>63,935</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	535,614	82,297	--	--
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	5,225	--	--	--
0021 <i>Instructional Leadership</i>	--	--	--	--
0023 <i>School Leadership</i>	--	--	--	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	--	--	--	--
0034 <i>Student Transportation</i>	--	--	--	--
0035 <i>Food Service</i>	--	--	1,173,271	46,641
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--	--	--
6030 <i>Total Expenditures</i>	<u>540,839</u>	<u>82,297</u>	<u>1,173,271</u>	<u>46,641</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>--</u>	<u>--</u>	<u>(61,057)</u>	<u>17,294</u>
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	--	13,000
8911 <i>Transfers Out</i>	--	--	(13,000)	--
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>--</u>	<u>--</u>	<u>(13,000)</u>	<u>13,000</u>
1200 <i>Net Change in Fund Balances</i>	<u>--</u>	<u>--</u>	<u>(74,057)</u>	<u>30,294</u>
0100 <i>Fund Balances - Beginning</i>	<u>--</u>	<u>--</u>	<u>169,507</u>	<u>--</u>
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 95,450</u>	<u>\$ 30,294</u>

244 Career and Tech Education Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Emergency Pmpact Aid LEA
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
28,146	57,604	--	38,470	6,210
<u>28,146</u>	<u>57,604</u>	<u>--</u>	<u>38,470</u>	<u>6,210</u>
24,076	--	--	38,470	6,210
--	--	--	--	--
4,070	57,604	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>28,146</u>	<u>57,604</u>	<u>--</u>	<u>38,470</u>	<u>6,210</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
\$ --	\$ --	\$ --	\$ --	\$ --

WHARTON INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	313 IDEA-B Formula	314 IDEA-B Preschool	410 State Textbook Fund	427 State Funded Special Revenue Fund
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	453,636	6,990
5900 <i>Federal Program Revenues</i>	675,218	18,355	--	--
5020 <i>Total Revenues</i>	675,218	18,355	453,636	6,990
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	412,995	18,355	453,636	--
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	--	--	--	6,990
0021 <i>Instructional Leadership</i>	--	--	--	--
0023 <i>School Leadership</i>	--	--	--	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	262,223	--	--	--
0034 <i>Student Transportation</i>	--	--	--	--
0035 <i>Food Service</i>	--	--	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--	--	--
6030 <i>Total Expenditures</i>	675,218	18,355	453,636	6,990
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>	--	--	--	--
1100 <i>Expenditures</i>	--	--	--	--
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	--	--
8911 <i>Transfers Out</i>	--	--	--	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--	--	--
1200 <i>Net Change in Fund Balances</i>	--	--	--	--
0100 <i>Fund Balances - Beginning</i>	--	--	--	--
3000 <i>Fund Balances - Ending</i>	\$ --	\$ --	\$ --	\$ --

	429 State Funded Special Revenue Fund	437 Special Education	461 Campus Activity Funds	499 Wharton County Community Foundation	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$	--	\$ 6,250	\$ 50,352	\$ 100,000	\$ 255,456
	7,756	1,297,539	--	--	1,811,495
	--	--	--	--	2,478,860
	<u>7,756</u>	<u>1,303,789</u>	<u>50,352</u>	<u>100,000</u>	<u>4,545,811</u>
	7,756	614,928	16,448	45,414	2,256,199
--	--	--	9,451	105,402	114,853
--	--	--	--	--	73,889
--	--	166,010	--	--	166,010
--	--	--	19,832	--	19,832
--	--	353,811	--	--	616,034
--	--	840	--	--	840
--	--	--	--	--	1,219,912
--	--	--	3,663	--	3,663
--	--	4,895	--	--	4,895
--	--	44,561	--	--	44,561
	<u>7,756</u>	<u>1,185,045</u>	<u>49,394</u>	<u>150,816</u>	<u>4,520,688</u>
--	--	118,744	958	(50,816)	25,123
--	--	--	--	--	13,000
--	--	--	--	--	(13,000)
--	--	--	--	--	--
--	--	118,744	958	(50,816)	25,123
--	--	169,756	32,825	51,602	423,690
\$	<u>--</u>	<u>288,500</u>	<u>33,783</u>	<u>786</u>	<u>448,813</u>

WHARTON INDEPENDENT SCHOOL DISTRICT

EXHIBIT H-3

CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	Local and Intermediate Sources	\$ 250,555	\$ 259,554	\$ 8,999
5020	Total Revenues	<u>250,555</u>	<u>259,554</u>	<u>8,999</u>
	EXPENDITURES:			
	Capital Outlay:			
0081	Capital Outlay	<u>10,100,000</u>	<u>10,022,727</u>	<u>77,273</u>
	Total Capital Outlay	<u>10,100,000</u>	<u>10,022,727</u>	<u>77,273</u>
6030	Total Expenditures	<u>10,100,000</u>	<u>10,022,727</u>	<u>77,273</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>(9,849,445)</u>	<u>(9,763,173)</u>	<u>86,272</u>
1200	Net Change in Fund Balance	<u>(9,849,445)</u>	<u>(9,763,173)</u>	<u>86,272</u>
0100	Fund Balance - Beginning	<u>30,983,161</u>	<u>30,983,161</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 21,133,716</u>	<u>\$ 21,219,988</u>	<u>\$ 86,272</u>

WHARTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AUGUST 31, 2020

Data Control Codes	863 Payroll Clearing	865 Student Activity	Total Agency Funds (See Exhibit E-1)
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ (701)	\$ 149,175	\$ 148,474
1000 Total Assets	<u>(701)</u>	<u>149,175</u>	<u>148,474</u>
LIABILITIES:			
Current Liabilities:			
2150 <i>Payroll Deduction & Withholdings</i>	\$ (701)	\$ --	\$ (701)
2190 <i>Due to Student Groups</i>	<u>--</u>	<u>149,175</u>	<u>149,175</u>
2000 Total Liabilities	<u>(701)</u>	<u>149,175</u>	<u>148,474</u>
NET POSITION:			
3000 Total Net Position	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>



Other Supplementary Information

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

WHARTON INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2020*

Year Ended August 31	1		2	3
	Tax Rates		Assessed/Appraised	
	Maintenance	Debt Service	Value For School Tax Purposes	
2011 and Prior Years	\$ Various	\$ Various	\$	Various
2012	1.0401	0.2003		849,208,543
2013	1.0401	0.1859		918,098,031
2014	1.0401	0.1748		958,224,134
2015	1.0401	0.1570		1,003,410,826
2016	1.0401	0.1570		912,298,722
2017	1.1700	0.0270		988,205,514
2018	1.1700	0.0270		1,146,091,562
2019	1.0900	0.1070		1,353,600,167
'2020 (School Year Under Audit)	1.0165	0.2807		1,292,121,884

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

EXHIBIT J-1

10	20	31	32	40	50
Beginning Balance 09/01/2019	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 08/31/2020
\$ 195,071	\$ --	\$ 769	\$ 262	\$ (16,641)	\$ 177,399
19,060	--	246	239	(35)	18,540
25,807	--	134	232	(34)	25,406
31,914	--	3,390	395	(29)	28,100
44,778	--	4,904	619	(28)	39,227
45,940	--	8,287	978	(28)	36,647
70,348	--	16,706	385	341	53,598
108,259	--	31,960	727	816	76,388
315,425	--	79,296	10,300	(6,214)	219,615
--	17,524,443	13,444,618	3,712,646	(87,397)	279,780
\$ <u>856,602</u>	\$ <u>17,524,443</u>	\$ <u>13,590,310</u>	\$ <u>3,726,783</u>	\$ <u>(109,249)</u>	\$ <u>954,702</u>

WHARTON INDEPENDENT SCHOOL DISTRICT

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT J-3

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	Local and Intermediate Sources	\$ 54,282	\$ 98,854	\$ 44,572
5800	State Program Revenues	42,857	44,351	1,494
5900	Federal Program Revenues	1,093,519	969,009	(124,510)
5020	Total Revenues	1,190,658	1,112,214	(78,444)
	EXPENDITURES:			
	Current:			
	Support Services - Student (Pupil):			
0035	Food Services	1,221,658	1,173,271	48,387
	Total Support Services - Student (Pupil)	1,221,658	1,173,271	48,387
6030	Total Expenditures	1,221,658	1,173,271	48,387
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(31,000)	(61,057)	(30,057)
1200	Net Change in Fund Balance	(18,000)	(74,057)	(56,057)
0100	Fund Balance - Beginning	169,507	169,507	--
3000	Fund Balance - Ending	\$ 151,507	\$ 95,450	\$ (56,057)

WHARTON INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

FUND 511

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	<i>Local and Intermediate Sources</i>	\$ 3,626,986	\$ 3,759,887	\$ 132,901
5800	<i>State Program Revenues</i>	--	26,710	26,710
5020	Total Revenues	<u>3,626,986</u>	<u>3,786,597</u>	<u>159,611</u>
	EXPENDITURES:			
	Debt Service:			
0071	<i>Principal on Long-Term Debt</i>	1,385,000	1,385,000	--
0072	<i>Interest on Long-Term Debt</i>	<u>2,202,441</u>	<u>2,118,347</u>	<u>84,094</u>
	Total Debt Service	<u>3,587,441</u>	<u>3,503,347</u>	<u>84,094</u>
6030	Total Expenditures	<u>3,587,441</u>	<u>3,503,347</u>	<u>84,094</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>39,545</u>	<u>283,250</u>	<u>243,705</u>
1200	Net Change in Fund Balance	<u>39,545</u>	<u>283,250</u>	<u>243,705</u>
0100	Fund Balance - Beginning	<u>241,495</u>	<u>241,495</u>	--
3000	Fund Balance - Ending	<u>\$ 281,040</u>	<u>\$ 524,745</u>	<u>\$ 243,705</u>



Harry Afadapa & Associates, PC

Certified Public Accountants

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Stafford, Texas 77477

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

Board of Trustees
Wharton Independent School District
2100 N. Fulton
Wharton, Texas 77488

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wharton Independent School District, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise Wharton Independent School District's basic financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Harry Afadapa
& Associates, PC

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o=Harry Afadapa & Associates, PC, ou,
email=harry@afadapa.com, c=US
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Harry Afadapa & Associates, PC

Stafford, Texas
November 30, 2020

Harry Afadapa & Associates, PC

Certified Public Accountants

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

Board of Trustees
Wharton Independent School District
2100 N. Fulton
Wharton, Texas 77488

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

Harry Afadapa &
Associates, PC

Digitally signed by Harry Afadapa &
Associates, PC
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PC, o=Harry Afadapa & Associates, PC,
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Harry Afadapa & Associates, PC

Stafford, Texas
November 30, 2020

WHARTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2020

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

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

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

Version of compliance supplement used in audit: August 2019

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027/ 84.173	Special Education Cluster
84.010	Title 1 Program
10.553/10.555	School Breakfast/ National Lunch Programs

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings
NONE

C. Federal Award Findings and Questioned Costs
NONE

WHARTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2020

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<i>None - Initial year</i>		

WHARTON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT K-1

(1)	(2)	(2A)	(3)	
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA-Part B, Discretionary	84.027	20660001241904	\$ --	\$ --
IDEA-Part B, Discretionary	84.027	20660001241904	--	82,297
SSA IDEA - Part B, Formula	84.027	20660001241904	--	--
SSA IDEA - Part B, Formula	84.027	20660001241904	--	80,484
SSA IDEA - Part B, Formula	84.027	20660001241904	279,277	594,734
Total CFDA Number 84.027			279,277	757,515
SSA IDEA - Part B, Preschool	84.173	20660001241904	--	--
SSA IDEA - Part B, Preschool	84.173	20660001241904	--	1,907
SSA IDEA - Part B, Preschool	84.173	20660001241904	7,592	16,448
Total CFDA Number 84.173			7,592	18,355
Total Passed Through State Department of Education			286,869	775,870
Total U. S. Department of Education			286,869	775,870
Total Special Education (IDEA) Cluster			286,869	775,870
OTHER PROGRAMS:				
<u>U. S. Department of Education</u>				
Direct Programs:				
Federally Funded Special Revenue Funds	84.424a	18510701241904	--	--
Federally Funded Special Revenue Funds	84.424a	18510701241904	--	6,210
Total Direct Programs			--	6,210
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010a	20610101241904	--	--
ESEA Title I Part A - Improving Basic Programs	84.010a	20610101241904	--	48,240
ESEA Title I Part A - Improving Basic Programs	84.010a	20610101241904	--	492,599
Total CFDA Number 84.010a			--	540,839
Career and Technical Education - Basic Grant	84.048	20420006241904	--	--
Career and Technical Education - Basic Grant	84.048	20420006241904	--	28,146
Total CFDA Number 84.048			--	28,146
ESEA, Title VI, Part B, Subpart 2-Rural and Low Income School Grar	84.358a	20696001241904	--	--
ESEA, Title VI, Part B, Subpart 2-Rural and Low Income School Grar	84.358a	20696001241904	--	38,470
Total CFDA Number 84.358a			--	38,470
Title III, Part A-English Language Acquisition and Language Enhance	84.365a	20696001241904	--	--
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367a	20694501241904	--	--
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367a	20694501241904	--	57,604
Total CFDA Number 84.367a			--	57,604
Total Passed Through State Department of Education			--	671,269
Total U. S. Department of Education			286,869	1,447,139
U. S. Department of Agriculture				
Passed Through Texas Department of Agriculture:				
Passed Through State Department of Education-Texas Education				
Agency: Child Nutrition Cluster -				
School Breakfast Program*	10.553	714,020	--	237,684
National School Lunch Program*	10.555	713,020	--	731,325
Summer Food Service Program*		523020/524020	--	62,712
Total U.S. Department of Agriculture			--	1,031,721
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 286,869	\$ 2,478,860
Reconciliation of Federal Expenditures:				
Federal Expenditure per SEFA (above)				2,478,860
Add:				
School Health and Related Services (SHARS) Revenue-				
Not considered Federal Financial Assistance.				334,324
Total Federal Revenue per Statement of Revenue, Expenditures, And Changes in Fund Balance [Exhibit C-2]				2,813,184

* Indicates clustered programs under OMB Uniform Guidance (2.CFR.200)

WHARTON INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2020

Basis of Presentation

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

Summary of Significant Accounting Policies

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

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

WHARTON INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2020*

<u>Data Control Codes</u>		<u>Responses</u>
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warranty hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year-end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ --

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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September 28, 2021

WE HAVE ACTED as Bond Counsel for the Wharton Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

WHARTON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX
REFUNDING BONDS, TAXABLE SERIES 2021, dated September 1, 2021 in the
aggregate principal amount of \$12,180,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED 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. In such capacity we have examined the Constitution, laws of the State of Texas and transcripts of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded (the “Refunded Bonds”) with the proceeds of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”); the report (the “Report”) of Public Finance Partners LLC (the “Verification Agent”), which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond Nos. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) The escrow agreement between the District and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of 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 such Escrow Agreement.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

WE EXPRESS NO OPINION as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. We call to your attention that interest on the Bonds is not excludable from gross income for federal income tax purposes. Prospective purchasers of the Bonds should consult their tax advisors as to the consequences of investing in the Bonds.

September 28, 2021

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

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USCA MUNICIPAL ADVISORS, LLC

Financial Advisor to the District

