OFFICIAL STATEMENT
Dated October 14, 2021

NEW ISSUE – BOOK-ENTRY-ONLY

S&P Global Ratings (ENHANCED/UNENHANCED): – "AAA/AA-"
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$4,755,000
WILLIS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery & San Jacinto Counties)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated Date: November 15, 2021 **Due: See Inside Cover Page**
Interest Accrues/Accretes from Date of Delivery

The "Willis Independent School District Unlimited Tax Refunding Bonds, Series 2021" (the "Bonds"), as shown on inside cover page, are direct obligations of the Willis Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on July 14, 2021. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute an a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order").

Interest on the Bonds will accrue from the Date of Delivery (defined below) of the Bonds, will be payable until stated maturity or prior redemption on February 15 and August 15 of each year, commencing February 15, 2022, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the $5,000 of principal amount or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

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

For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers, and Redemption Provisions for the Bonds, see inside cover page

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser named below (the "Underwriter") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel (see "LEGAL MATTERS"; "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" hereto). Certain matters will be passed upon for the Underwriter by its counsel, Holland & Knight LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about November 18, 2021 (the "Date of Delivery").

SAMCO CAPITAL

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

$4,755,000*

WILLIS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery & San Jacinto Counties)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

CUSIP No. Prefix 970667[(a)]

Stated Maturity (February 15)	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)[(b)]	CUSIP No. Suffix[(a)]
2022	55,000	3.000%	0.160%	C82
2023	***	***	***	***
2024	***	***	***	***
2025	***	***	***	***
2026	***	***	***	***
2027	***	***	***	***
2028	1,180,000	4.000%	0.960%	D65
2029	2,510,000	4.000%	1.120%	D73
2030	1,010,000	4.000%	1.250%	D81

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

The District reserves the option to redeem the Bonds maturing on February 15, 2030 in whole or in part before scheduled maturity, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2029 or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.

[(a)]CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

[(b)] The initial reoffering prices or yields of the Bonds are furnished by the Underwriter and represent the initial offering prices or yields to the public, which may be changed by the Underwriter at any time.

WILLIS INDEPENDENT SCHOOL DISTRICT
612 N. Campbell Street
Willis, TX 77378

BOARD OF TRUSTEES

ADMINISTRATION – FINANCE CONNECTED

Name	Position
Dr. Tim Harkrider	Superintendent
Garrett Matej	Assistant Superintendent of Business & Finance

CONSULTANTS AND ADVISORS

Orrick, Herrington & Sutcliffe LLP, Austin, Texas	Bond Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Weaver and Tidwell, L.L.P., Conroe, Texas	Certified Public Accountants

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

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

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

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

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	The Willis Independent School District (the "District") is a political subdivision located in Montgomery County and San Jacinto County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered four-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools. The District is approximately 163.6 square miles in area. The District has an estimated population of 45,482.
THE BONDS.........................	The Willis Independent School District Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds") are being issued in the principal amounts and mature on the dates set forth on inside cover page hereof. The Bonds bear interest from the Date of Delivery (identified below), at the rates per annum set forth on page ii hereof, which interest is payable each February 15 and August 15, commencing February 15, 2022, until maturity or prior redemption. See "THE BONDS—General Description" herein.
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on July 14, 2021. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute an a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). See "THE BONDS – Authority for Issuance" herein.
DATED DATE	November 15, 2021.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on February 15, 2030, in whole or in part before scheduled maturity, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2029, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX EXEMPTION	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
MUNICIPAL BOND RATING	S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying, unenhanced rating of "AA-" to the District's ad valorem tax-supported indebtedness, including the Bonds.
FUTURE BOND ISSUES	The District has no authorized but unissued ad valorem tax bonds and does not anticipate the issuance of additional ad valorem tax supported debt in the calendar year 2021.
PAYMENT RECORD ……….	The District has never defaulted on the payment of its bond indebtedness.
DELIVERY …………………..	When issued, anticipated to occur on or about November 18, 2021 (the "Date of Delivery").
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas. (See "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" herein).

PRELIMINARY OFFICIAL STATEMENT

relating to

$4,755,000
WILLIS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery & San Jacinto Counties)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

INTRODUCTION

This Official Statement of Willis Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's $4,755,000 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds").

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

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

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement and the Escrow Agreement (defined below) pertaining to the Bonds will be filed by the Underwriter with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. Under executive orders in effect as of the date hereof, there are no COVID-19 related operating limits for any business or other establishment nor are local governmental entities or officials permitted to establish such limits. Such orders encourage individuals in areas where the COVID-19 transmission rate is high to follow safe practices, including wearing face coverings under certain circumstances, but provide that no person may be required by any jurisdiction to wear or mandate the wearing of a face covering. Certain districts have implemented face covering requirements notwithstanding the Governor's orders, which requirements are currently the subject of litigation. As of the date hereof, the District does not have a policy requiring the wearing of face coverings. The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://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.

The TEA advised districts that for the 2020-2021 school year district funding would return to being based on “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”) calculations requiring attendance to be taken. However, the TEA has crafted an approach for determining ADA during the pandemic 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 initially provided an ADA grace period 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 were excluded from the calculation of annual ADA and student full-time equivalents (“FTE”) for Foundation School Program (“FSP”) funding purposes and 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 LPE ADA and FTE were 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 was identical to the methodology used for the first two six-week attendance reporting periods, except that the third six-week period was examined independent of the first two six-week attendance reporting periods.

The ADA hold harmless protection was 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 six-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 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 educated 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-weeks 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 educated 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 TEA has indicated that it will provide the highest level of funding that results from either the hold harmless attendance counts (as a group, inclusive of all settings) or the district’s actual attendance counts (as a group, inclusive of all settings) for the entire school year, encompassing all portions of the school year for which a district would have been eligible for a hold harmless adjustment. As a result, it is not expected that a district’s funding would be negatively impacted by the hold harmless adjustment.

Additional information regarding the 2020-2021 school year may be obtained from the TEA. Following the initial grace period and any applicable hold harmless periods described above, a return to funding based on actual attendance during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if the District does not qualify for the additional hold harmless periods or if students do not take part in the instruction options made available by the District.

As of the date hereof, the “Delta” variant of SARS-CoV-2 appears to be responsible for a recent increase in COVID-19 cases within the State and the United States generally. The District cannot predict whether this increase in COVID-19 cases will continue and, if so, whether such a continued increase would have a material adverse effect on the District’s operations or its finances.

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 the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition or its ratings (see "RATINGS").

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. In addition, the federal government has taken, and continues to consider additional action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District, although the District is not predicting a material adverse impact on its property values (see "AD VALOREM TAX PROCEDURES"). The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

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

PLAN OF FINANCING

Purpose

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

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the interest payment dates and redemption dates (shown in Schedule I) of such Refunded Bonds from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") between the District and BOKF, NA, Dallas, Texas (the "Escrow Agent"). The Order provides that a cash contribution, if any, by the District plus funds from the proceeds of the sale of the Bonds received from the initial purchaser of the Bonds listed on the cover page hereof (the "Underwriter"), will be deposited with the Escrow Agent in an amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and will be held uninvested until the redemption date. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Verification of Refunded Bonds Escrow

Public Finance Partners LLC, Minneapolis, Minnesota will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate the uninvested funds held in the Escrow Fund, will be sufficient to pay the principal of and interest on the Refunded Bonds on their respective redemption dates. Such uninvested funds will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of the 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. The opinion of Bond Counsel will note that as a result of such defeasance and in reliance upon the verification report of Public Finance Partners LLC, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the corpus of the Permanent School Fund.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	$4,755,000.00
Reoffering Premium on the Bonds	910,308.95
TOTAL SOURCES	$5,665,308.95
Uses of Funds:	
Deposit to Escrow Fund	$5,535,150.00
Underwriter's Discount	42,554.54
Cost of Issuance & Rounding Amount	87,604.41
TOTAL USES	$5,665,308.95

THE BONDS

General Description

The Bonds are dated November 15, 2021 and mature on February 15 in each of the years and in the amounts set forth on inside cover page hereof. Interest on the Bonds will accrue from the Date of Delivery (defined herein), and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2022, until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on July 14, 2021. In the Order, and as permitted by Chapter 1207, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order").

Security for Payment

The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. **Additionally, the District has received conditional approval from the Texas Education Agency for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of Texas, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (see "– Permanent School Fund Guarantee" below).**

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Permanent School Fund of the State of Texas, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). Discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

Redemption Provisions of the Bonds

The District reserves the option to redeem the Bonds maturing on February 15, 2030, in whole or in part before their scheduled maturity, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2029, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Selection of Bonds for Redemption

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

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

Defeasance

The Bond Order provides that the District may defease the provisions of the Order and discharge its obligation to the Owners of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including (but not limited to) by depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar, and thereafter the District will have no further responsibility with respect to amounts available to such Paying Agent/Registrar (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such Paying Agent/Registrar (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities.

In the Bond Order, "Defeasance Securities" means (i) direct non-callable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; and (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance, and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. After firm banking and financial arrangements for the defeasance of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Bonds, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and such defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund.

Amendments

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount then outstanding, as applicable, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (i) make any change in the maturity of any of the outstanding Bonds; (ii) reduce the rate of interest borne by any of the outstanding Bonds; (iii) reduce the amount of the principal thereof, or redemption premium, if any, payable on any outstanding Bonds; (iv) modify the terms of payment of principal, interest, or redemption premium on outstanding Bonds, or impose any condition with respect to such payment; or (v) change the minimum percentage of the principal amount of the Bonds necessary to consent to such amendment.

Default and Remedies

The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund

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

Payment Record

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

Legality

The Bonds are offered for delivery when, as and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel (see “LEGAL MATTERS” and “APPENDIX C — FORM OF BOND COUNSEL’S OPINION”).

Delivery

When issued; anticipated to occur on or about November 18, 2021 (the “Date of Delivery”).

Future Issues

The District has no authorized but unissued ad valorem tax bonds and does not anticipate the issuance of additional ad valorem tax supported debt in the calendar year 2021.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount, and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

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

Replacement Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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 though 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 administrated 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 Fund[1]

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

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[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, 2020[1]

ASSET CLASS	
Fixed Income	
Short-Term Fixed Income	$1,597.3
Unallocated Cash	2,453.3
Total Liquid Account Investments	$4,050.6

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[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

Asset Class	As of 8-31-20	As of 8-31-19	Increase (Decrease)	Percent Change
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%

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the 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 lessor 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.

Changes in SBOE-determined multiplier for State law capacity

Date	Multiplier
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]

School District Bonds	Charter District Bonds	Totals

Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2016	3,244	$67,342,303,445	35	$ 961,025,000	3,279	$68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020[(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 CDBGP 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 8-31-2020[1]

Portfolio	Return	Benchmark Return[2]
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.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Montgomery County Appraisal District and the San Jacinto Central Appraisal District collectively (the "Appraisal Districts"). Except as generally described below, the Appraisal Districts are required to appraise all property within the Appraisal Districts 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 Districts are 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 Districts consider most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in their 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 Districts 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 appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no 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. Thus, purely economic, non-physical damage to property caused by the COVID-19 disaster is not eligible for the temporary tax exemption provided by section 11.35 of the Tax Code. Tex. Att'y Gen. Op. No. KP-0299 (2020).

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").

The 87th Texas Legislature did not take action to extend this program, which is now scheduled to expire by its terms effective December 31, 2022.

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

District and Taxpayer Remedies

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

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "TAX RATE LIMITATIONS — Public Hearing and Voter-Approval Tax Rate"). 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 generally 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, which amount must be used to pay delinquent tax attorney fees. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

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THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal Districts have the responsibility for appraising all of the property in the District as well as other taxing units in Montgomery and San Jacinto Counties. Each Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Montgomery and San Jacinto Counties political subdivisions, respectively. The District's taxes are collected by the Montgomery County Tax Office.

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

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	*38%

*Includes attorney tax collection fee which by contract can be up to 20% of the amount of delinquent tax, penalty, and interest collected.

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

The District does not allow split payments of taxes.

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

The District does not participate in a tax increment-financing zone.

The District does not tax non-business personal property.

The District does tax "goods in transit" without exemption.

The District does not tax "freeport property".

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

The District grants a state mandated local homestead exemption of $25,000 for taxpayers, and an additional state mandated exemption of $5,000 for taxpayers who are at least 65 years of age.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et al. v. The Texas Taxpayer and Student Fairness Coalition, et al.*, 490 S.W. 3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The 87th Texas Legislature passed HB 1525 ("HB1525"), which covered many school finance and education-related matters. The District is still in the process of (a) analyzing the provisions of HB 3, HB1525, and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding of HB 3, HB1525, and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. The Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021. The Governor has called a third special legislative session, which convened on September 20, 2021, and may call additional special sessions. Action taken during this special session or any subsequent special session could include items affecting the District or its finances.

Overview

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

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

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

During the 87th Texas Legislative Session, the Legislature approved a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures, among other legislation affecting school districts and the administrative agencies that oversee school districts. Of note, House Bill 1525 contained a number of technical modifications to the school finance system as established under HB 3 during the 86th Legislative Session. The District is in the process of evaluating the legislation that passed during the 87th Texas Legislative Session and how it may impact the District. The District can make no representations or predictions regarding the impact of the legislation passed at this time.

Local Funding for School Districts

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

State Compression Percentage: The State Compression Percentage (the "SCP") is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year SCP. For any year, the maximum SCP 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 two alternative calculations: (1) the

"SCP" (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the maximum statewide MCR multiplied by 90%, so 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. During the 2021 Legislative Session, a provision of the general appropriations act reduced the maximum MCR for the 2021-2022 school year. It established $0.9134 as the maximum rate and $0.8220 as the floor.

Tier One Tax Rate. 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 the school district's MCR for the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

State Funding for School Districts

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

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

The current public school finance system also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2022-2023 State fiscal biennium, the State Legislature appropriated funds in the amount of $1,007,300,000 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 programmatic 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" in the Regular Program (being generally calculated as the sum of student attendance for each State-mandated day of regular instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is then supplemented by additional State funds, allotted for all other instructional programs based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (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 2022-2023 State fiscal biennium, school districts are guaranteed a yield of $98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from $31.95 per Copper Penny per student in WADA for the 2018-2019 school year to $49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of $0.17 in school year 2018-2019 were required to 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 2022-2023 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 2022-2023 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 2022-2023 State fiscal biennium on new bonds issued by school districts in the 2022-2023 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2021 Legislative Session, the State Legislature appropriated funds in the amount of $70,000,000 for each fiscal year of the 2022-2023 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 total state & local entitlement Tax Rate and whose Copper Pennies generate local funds in excess of the Tier Two 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 concluded 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. The Governor called a third special session of the 87th Texas Legislature, which convened on September 20, 2021.

During the legislative session, the Legislature will consider a general appropriations act and may consider legislation affecting the Finance System and ad valorem taxation procedures affecting school districts, among other legislation affecting school districts and the administrative agencies that oversee school districts. Reductions in State revenues due to the Pandemic and declines in oil and gas prices may impact the Finance System. The District is in the process of evaluating the legislation that passed during the 87th Texas Legislative's Regular Session and how it may impact the District during the upcoming biennium. The District can make no representations or predictions regarding any actions the Legislature may take during the special sessions of the 87th Texas Legislature concerning the substance or the effect of any legislation that may be passed during this session or a future session of the Legislature.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2021-2022 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable properly to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation taxes (“M&O Tax”) subject to approval of a proposition submitted to district voters under section 45.003(d) of the Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" below). The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on April 3, 1965, under Article 2784e-1, Texas Revised Statutes Annotated, as amended (Article 2784e-1”).

HB 3 established the following maximum M&O tax rate per $100 of taxable value that may be adopted by independent school districts, such as the District, for the 2021 and subsequent tax years:

> The maximum M&O tax rate per $100 of taxable value that may be adopted by an independent school district is the sum of $0.17 and the school district’s MCR. A school district’s MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for an independent school district is $0.93.

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 for 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 as refunding bonds pursuant to Chapter 1207 and, therefore are not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of “new debt”. The District has not projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See Note 4.C. to the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto.

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

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions,* which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending June 30, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the 2019-20 fiscal year, the District had a net pension liability of $20,936,137.

See primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX B hereto for information related to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to make investments meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA"), which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2)

direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is 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 or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA 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, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States 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 (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

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

District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Political subdivisions such as the District are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

Investment Policies

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

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

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a 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 District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of the Order. The form of Bond Counsel's opinion is attached hereto as APPENDIX C.

Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions and subcaptions, "PLAN OF FINANCING – Refunded Bonds," "THE BONDS" (except for the subcaptions "Permanent School Fund Guarantee", "Default and Remedies", "Payment Record", and "Future Issues", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS (except the last sentence of the second paragraph thereof, as to which no opinion is expressed), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" and "CONTINUING DISCLOSURE" (except under the subcaption "Compliance With Prior Agreements", as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal 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. Certain legal matters will be passed upon for the Underwriter by its counsel, Holland & Knight LLP, Houston, Texas, whose legal fees of such firms are contingent upon the sale and delivery of the Bonds.

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

Litigation

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

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

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

CONTINUING DISCLOSURE

In the Order, the District has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified events to the MSRB via EMMA through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A under Tables numbered 1 through 6 and Tables 8-14, and in APPENDIX B attached hereto. The District will update and provide this information within six months after the end of each fiscal year.

Financial information and operating data to be provided hereunder may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement, other offering document, or financial report) available to the public on the MSRB's Internet Web site or filed with the SEC in such format and manner as permitted by Rule 15c2-12. The updated information will include audited financial statements if the District commissions an audit and it is completed by the required time. If audited financial statements are not available within twelve (12) months after any such fiscal year end, the District will provide to the MSRB unaudited financial statements within such 12-month period and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

Notice of Certain Events

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

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

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

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement with respect to a series of Bonds from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends its agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreements described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Agreements

During the past five years, the District has complied in all material respects with all continuing disclosure agreements made in accordance with Rule 15c2-12.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying, unenhanced rating of "AA-" to the District's ad valorem tax-supported indebtedness, including the Bonds.

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

Financial Advisor

Live Oak Public Finance, LLC (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Live Oak Public Finance, LLC, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on inside cover page herein, less an Underwriter's discount of $42,554.54 (and no accrued interest). The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

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

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

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

Forward Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

WILLIS INDEPENDENT SCHOOL DISTRICT

/s/ *Garrett Matej*
Pricing Officer

SCHEDULE I

REFUNDED BONDS

Series	Principal Amount ($)	Maturities (2/15)	Interest Rates (%)	Redemption Date and Price
Willis Independent School District Unlimited Tax Refunding Bonds, Series 2012				
	45,000	2023[1]	3.250	2/15/2022@100%
	50,000	2024[1]	3.250	2/15/2022@100%
	50,000	2025[1]	3.250	2/15/2022@100%
	50,000	2026[1]	3.250	2/15/2022@100%
	55,000	2027[1]	3.250	2/15/2022@100%
	1,240,000	2028	3.250	2/15/2022@100%
	1,275,000	2029	3.250	2/15/2022@100%
	1,320,000	2030	3.250	2/15/2022@100%
	1,365,000	2031	2.750	2/15/2022@100%

(1) Represents a sinking fund payment for a Term Bond with a final maturity in 2027.

APPENDIX A

SELECTED FINANCIAL INFORMATION OF THE DISTRICT

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2021/2022 Market Valuation Established by Montgomery Central Appraisal District and the San Jacinto County Appraisal District (Excludes Fully Exempt Property)		$5,806,620,670
Less: Exemptions/Reductions at 100% Market Value		
Homestead Cap Adjustment	98,610,925	
Productivity Loss	221,587,180	
Residential Homestead Exemptions	274,807,392	
Over 65 Exemptions	44,608,089	
Disabled Persons Exemption	3,366,420	
Disabled Veterans Exemptions	62,174,381	
Pollution Control	33,014,930	
Other Exemptions	204,224,082	(942,393,399)
2021/2022 Taxable Assessed Valuation(1)		$4,864,227,271

(1) Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers.

Debt Payable From Ad Valorem Taxes:		
Outstanding Unlimited Tax Bonds (as of August 15, 2021)	234,242,295	
Plus: The Bonds	4,755,000	
Less: The Refunded Bonds	(5,450,000)	233,547,295
Interest and Sinking Fund Balance (estimated as of August 31, 2021)		$ 4,000,000
Ratio of Tax Supported Debt to Taxable Assessed Valuation		4.80%
2020/21 Refined Average Daily Attendence		7,169
2021/2022 Estimated Population		45,482
Per Capita Taxable Assessed Valuation		$ 106,948
Per Capita Debt Payable from Ad Valorem Taxes		$ 5,135

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Assessed Value for Fiscal Year Ended August 31,					
	2022		2021		2020	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residental, Single-family	$3,847,008,877	66.25%	$3,502,548,625	66.33%	$3,167,134,922	64.76%
Real, Residential, Multi-family	49,346,670	0.85%	19,860,670	0.38%	11,200,720	0.23%
Real, Vacant Platted Lots/Tracts	186,683,010	3.22%	191,779,440	3.63%	178,683,067	3.65%
Real, Acreage (Land Only)	243,149,564	4.19%	317,862,750	6.02%	327,036,539	6.69%
Real, Farm and Ranch Improvements	246,625,327	4.25%	283,469,848	5.37%	263,431,963	5.39%
Real, Commercial and Industrial	833,289,951	14.35%	539,260,699	10.21%	499,278,635	10.21%
Real, and Intangible Personal, Utilities	101,318,831	1.74%	70,336,747	1.33%	59,341,577	1.21%
Tangible Personal, Business	218,379,914	3.76%	286,349,805	5.42%	289,490,288	5.92%
Tangible Personal, Other	24,496,741	0.42%	24,931,311	0.47%	23,259,981	0.48%
Real Inventory	49,628,490	0.85%	38,965,250	0.74%	66,600,830	1.36%
Special Inventory	6,693,295	0.12%	5,288,315	0.10%	4,901,676	0.10%
Total Appraised Value Before Exemptions	$5,806,620,670	100.00%	$5,280,653,460	100.00%	$4,890,360,198	100.00%
Less: Total Exemptions/Reductions	(942,393,399)		(785,847,172)		(763,761,752)	
Taxable Assessed Value	$4,864,227,271		$4,494,806,288		$4,126,598,446	

	Taxable Assessed Value for Fiscal Year Ended August 31,			
	2019		2018	
Category	Amount	% of Total	Amount	% of Total
Real, Residental, Single-family	$2,882,301,790	63.50%	$2,732,704,023	65.15%
Real, Residential, Multi-family	10,867,370	0.24%	8,029,798	0.19%
Real, Vacant Platted Lots/Tracts	180,456,057	3.98%	157,107,269	3.75%
Real, Acreage (Land Only)	333,689,299	7.35%	320,106,104	7.63%
Real, Farm and Ranch Improvements	245,791,556	5.42%	229,720,804	5.48%
Real, Commercial and Industrial	496,977,760	10.95%	430,223,506	10.26%
Real, and Intangible Personal, Utilities	57,220,361	1.26%	57,427,387	1.37%
Tangible Personal, Business	270,102,432	5.95%	211,380,429	5.04%
Tangible Personal, Other	20,531,423	0.45%	16,035,871	0.38%
Real Inventory	36,105,190	0.80%	26,718,590	0.64%
Special Inventory	5,002,322	0.11%	4,733,539	0.11%
Total Appraised Value Before Exemptions	$4,539,045,560	100.00%	$4,194,187,320	100.00%
Less: Total Exemptions/Reductions	(731,295,412)		(731,459,290)	
Taxable Assessed Value	$3,807,750,148		$3,462,728,030	

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Evaluation	Tax Supported Debt Per Capita
2017	43,198	$3,281,118,835	$75,955	$153,472,767	4.68%	$3,553
2018	43,193	3,462,728,030	80,169	149,791,702	4.33%	3,468
2019	44,293	3,807,750,148	85,967	145,812,982	3.83%	3,292
2020	45,070	4,126,598,446	91,560	141,038,987	3.42%	3,129
2021	45,482	4,494,806,288	98,826	234,242,295	5.21%	5,150

(1) Source: The Municipal Advisory Council of Texas.
(2) Established by the Montgomery Central Appraisal District and the San Jacinto County Appraisal District. Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers. Net of exemptions. Subject to change during the ensuing year.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY[1]

Fiscal Year Ended 8/31	Tax Rate	General Fund[3]	Interest & Sinking Fund	Tax Levy	Collections %[2] Current	Collections %[2] Total
2017	$1.3900	$1.0400	$0.3500	$42,326,972	98.23%	99.33%
2018	1.3900	1.0400	0.3500	46,244,030	98.25%	99.57%
2019	1.3600	1.0400	0.3200	49,335,001	98.42%	99.80%
2020	1.2700	0.9700	0.3000	49,086,788	98.47%	99.29%
2021	1.2171	0.9171	0.3000	54,706,287	92.69%	93.86%

(1) Source: Districts Audited Financial Statements.
(2) Excludes penalties and interest.
(3) The decline in the District's Maintenance & Operations Tax from the 2018/2019 fiscal year to the 2019/2020 and 2020/21 fiscal years is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "State and Local Funding of School Districts in Texas" herein.
(4) Source: District records, partial collections as of July 31, 2021

TABLE 5 - TEN LARGEST TAXPAYERS[(1)(2)]

Name of Taxpayer	Nature of Property	2021/2022 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Entergy Texas Inc.	Electric Utility	$365,674,900	8.14%
QES Directional Drilling Co.	Oil & Gas Drilling Services/Equipment	25,520,810	0.57%
The Reserve at City Place LLC	Residential Development	24,002,090	0.53%
Camillo Houses CV #2 LLC	Residential Development	17,212,920	0.38%
Camillo Properties Ltd.	Residential Development	14,661,170	0.33%
Gulf South Pipeline Company	Oil & Gas Drilling Services/Equipment	14,349,980	0.32%
Breviloba LLC	Natural Gas Pipeline	14,207,630	0.32%
Capro Co	Commercial Building	13,053,041	0.29%
Sam Houston Town Center Partnership A LP	Residential Development	12,387,280	0.28%
Mueller Inc.	Commercial Building	12,136,941	0.27%
		$513,206,762	11.42%

(1) Source: The Montgomery Central Appraisal District and the San Jacinto County Appraisal District.

TABLE 6 - TAX ADEQUACY

2022 Principal and Interest Requirements	$14,162,770
0.3216 Tax Rate at 98.00% Collections Produces	$14,166,191
Average Annual Principal and Interest Requirements, 2022 - 2051	$11,554,101
0.2624 Tax Rate at 98.00% Collections Produces	$11,558,484
Maximum Principal and Interest Requirements, 2027	$15,309,188
0.3476 Tax Rate at 98.00% Collections Produces	$15,311,468

TABLE 7 - ESTIMATED OVERLAPPING DEBT[1]

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

Taxing Jurisdiction	Total Debt[2]	As of	% Overlapping	Overlapping Debt
City of Conroe	$ 365,025,000	9/30/2021	12.09%	$ 44,131,523
Corinthian Point MUD #2	1,080,000	9/30/2021	100.00%	1,080,000
Far Hills UD	9,545,000	9/30/2021	100.00%	9,545,000
Montgomery County	486,675,000	9/30/2021	6.59%	32,071,883
Montgomery County MUD #126	18,520,000	9/30/2021	100.00%	18,520,000
Montgomery County MUD #128A	10,075,000	9/30/2021	100.00%	10,075,000
Montgomery County UD #2	5,600,000	9/30/2021	100.00%	5,600,000
City of Panorama Village	2,685,000	9/30/2021	100.00%	2,685,000
Point Aquarius MUD	9,425,000	9/30/2021	100.00%	9,425,000
San Jacinto County	1,455,000	9/30/2021	2.51%	36,521
Texas National MUD	4,280,000	9/30/2021	91.95%	3,935,460
City of Willis	20,365,000	9/30/2021	100.00%	20,365,000
Estimated (Net) Overlapping Debt				157,470,386
Willis ISD[3]				233,547,295
Total Direct & Estimated Overlapping Debt				$ 391,017,681

Total Direct and Overlapping Debt % of the 2021 Certified Assessed Valuation	8.04%
Total Direct and Overlapping Debt Per Capita	$ 8,597

(1) Source: The Municipal Advisory Council of Texas.

(2) Gross Debt

(3) Projected; Includes the Bonds and excludes the Refunded Bonds.

TABLE 8 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Less: the Refunded Bonds	Plus: The Bonds Principal	Interest	Total	New Total Debt Service Requirements
2022	$14,138,238	$170,300	55,000.00	$139,832	$194,832	$14,162,770
2023	14,216,156	214,659		188,000	188,000	$14,189,498
2024	15,338,613	218,025		188,000	188,000	$15,308,588
2025	15,337,088	216,400		188,000	188,000	$15,308,688
2026	15,335,488	214,775		188,000	188,000	$15,308,713
2027	15,339,256	218,069		188,000	188,000	$15,309,188
2028	15,338,563	1,382,025	1,180,000	164,400	1,344,400	$15,300,938
2029	14,069,994	1,376,156	2,510,000	90,600	2,600,600	$15,294,438
2030	14,066,475	1,378,988	1,010,000	20,200	1,030,200	$13,717,688
2031	13,790,806	1,383,769				$12,407,038
2032	12,703,188					$12,703,188
2033	12,698,288					$12,698,288
2034	12,207,363					$12,207,363
2035	12,205,338					$12,205,338
2036	12,207,913					$12,207,913
2037	12,209,463					$12,209,463
2038	12,211,038					$12,211,038
2039	12,208,738					$12,208,738
2040	12,215,688					$12,215,688
2041	12,206,588					$12,206,588
2042	12,211,256					$12,211,256
2043	12,208,938					$12,208,938
2044	12,208,850					$12,208,850
2045	12,210,438					$12,210,438
2046	4,735,744					$4,735,744
2047	4,735,513					$4,735,513
2048	4,733,144					$4,733,144
2049	4,733,581					$4,733,581
2050	4,731,769					$4,731,769
2051	4,732,650					$4,732,650
Total	**$347,286,156**	**$6,773,165**	**$4,755,000**	**$1,355,032**	**$6,110,032**	**$346,623,023**

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Interest & Sinking Fund Balance as of August 31, 2021 [(1)]	$	4,000,000
Plus: Estimated Interest and Sinking Fund Tax Collections [(2)]		13,962,023
Plus: Additional State Aid for Homestead Exemption (ASAHE) [(3)]		176,790
Projected I&S Fund Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2022		(14,162,770)
Estimated Interest and Sinking Fund Balance as of August 31, 2021	**$**	**3,976,043**

(1) The District's unaudited estimated fund balance.

(2) The District's budget for fiscal year 2021/22.

(3) Texas Education Agency

TABLE 10 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Date Authorized	Amount Authorized	Authorization Used to Date	Unused Authorization
11/3/2020	$100,150,000	$100,150,000	$ -
3/14/1992	20,500,000	20,498,702	1,298[1]

[1] The District does not intend to issue these Bonds.

TABLE 11 - OTHER OBLIGATIONS

The District has no other obligations (other than unlimited tax bonds) or capitalized leases outstanding

TABLE 12 - CHANGE IN NET POSITION[(1)]

	Fiscal Year Ended August 31,				
	2020	2019	2018	2017	2016
Program Revenues					
Charges for Services	$1,596,604	$2,280,629	$2,252,940	$2,107,992	$2,286,326
Operating Grants and Contributions	14,711,141	13,550,939	(552,587)	11,785,026	9,479,025
General Revenues					
Property Taxes	49,614,818	49,971,189	46,597,500	42,652,257	38,151,322
State-Aid, Grants and Contributions	27,262,259	23,855,328	24,515,227	24,471,153	25,541,343
Investment Earnings	1,401,380	2,521,556	2,134,851	1,108,243	322,168
Other Revenues	117,621	302,989	318,662	343,844	3,432,222
Total Revenues	$94,703,823	$92,482,630	$75,266,593	$82,468,515	$79,212,406
Expenses:					
Instruction	$46,574,954	$41,588,897	$27,960,466	$34,695,222	$37,225,363
Instructional Resources and Media Svcs.	261,452	274,737	63,028	626,293	615,040
Curriculum and Staff Development	2,016,786	1,730,379	829,148	1,603,669	1,473,459
Instructional Leadership	255,575	242,669	137,281	209,601	226,034
School Leadership	5,112,848	4,790,693	3,193,275	4,268,077	4,076,029
Guidance, Counseling and Evaluation Svcs.	2,648,058	2,390,591	1,447,455	2,126,491	2,074,688
Social Work Services	180,443	174,727	155,831	174,022	139,302
Health Services	751,396	816,924	574,020	737,588	779,700
Student Transportation	3,593,164	3,804,914	3,183,992	3,756,886	3,474,840
Food Services	4,406,064	4,320,196	2,012,599	4,536,156	4,912,543
Extracurricular Activities	3,778,166	3,862,270	3,041,497	3,171,891	3,036,005
General Administration	2,127,141	2,030,389	1,387,347	1,821,522	1,739,427
Plant Maintenance and Operations	8,482,142	7,553,061	6,687,268	6,675,590	6,716,357
Secuirty and Monitoring Services	658,127	706,499	671,909	547,737	490,259
Data Processing Services	489,479	521,122	471,554	429,989	428,971
Community Services	10,394	76,010	16,497	55,502	61,614
Interest on Long-Term Debt	4,862,102	8,906,966	7,014,311	6,348,425	3,590,715
Capital Outlay	194,669	-	-	-	-
Bond Issuance Costs and Fees	193,783	-	-	-	217,200
Payments Related to Shared Services Agreements	-	-	6,776	9,042	8,088
Payments to Juvenile Justice Alternative Education Programs	2,635	9,265	8,670	-	-
Other Governmental Charges	442,145	537,635	420,784	387,607	338,200
Total Expenses	$87,041,523	$84,337,944	$59,283,708	$72,181,310	$71,623,834
Change in Net Position	$7,662,300	$8,144,686	$15,982,885	10,287,205	$7,588,572
Net Position -Beginning	39,473,658	31,328,972	53,719,578	43,432,373	35,843,801
Prior Period Adjustment	(7,150,307) [(2)]	-	(38,373,491) [(3)]	-	-
Net Position-Ending	$39,985,651	$39,473,658	$31,328,972	$53,719,578	$43,432,373

[(1)] Source: District's Audited Financial Statements

[(2)] Correction of misstatements in prior years. See APPENDIX B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT - NOTES TO THE FINANCIAL STATEMENTS, NOTE F."

[(3)] During fiscal year 2018, the District adopted GASB Statement No. 75 which required a prior period adjustment to report the effect of GASB Statement No.75 retroactively.

TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY[1]

	Fiscal Year Ended August 31,				
REVENUES:	2020	2019	2018	2017	2016
Local, Intermediate and Out-of-State	$38,448,651	$39,924,972	$36,002,747	$32,514,298	$29,119,990
State Program Revenues	30,073,481	26,548,990	27,080,485	26,712,229	27,962,444
Federal Program Revenues	866,580	70,743	89,449	63,616	66,536
Total Revenues	$69,388,712	$66,544,705	$63,172,681	$59,290,143	$57,148,970
EXPENDITURES:					
Instruction	$35,240,846	$34,471,882	$34,587,681	$30,512,597	$29,391,335
Instructional Resources and Media Svcs.	160,844	179,734	197,291	297,916	245,394
Curriculum and Staff Development	1,090,778	1,041,125	975,954	1,142,979	1,037,711
Instructional Leadership	181,514	174,731	168,388	157,121	154,377
School Leadership	4,266,840	4,134,332	3,916,942	3,738,745	3,439,889
Guidance, Counseling and Evaluation Svcs.	2,124,601	2,024,459	1,973,388	1,912,345	1,786,191
Social Work Services	176,867	171,588	167,841	165,017	164,764
Health Services	673,934	617,722	622,615	583,052	606,651
Student Transportation	3,688,255	3,735,090	3,664,943	3,623,277	3,249,361
Cocurricular/Extracurricular Activities	1,656,805	1,567,370	1,538,433	1,488,997	1,418,835
General Administration	1,919,726	1,921,293	1,862,466	1,753,068	1,616,868
Facilities Maintenance and Operations	7,763,283	8,044,074	7,321,120	6,815,695	6,544,955
Security and Monitoring Services	705,666	692,918	658,328	524,767	480,057
Data Processing Services	443,149	460,970	459,460	390,753	377,622
Capital Outlay	9,447,913	590,000	385,000	6,308,067	-
Payments to Juvenile Justice Alternative Education Program	2,635	9,265	8,670	-	7,310
Other Intergovernmental Charges	442,145	537,635	420,784	387,607	330,890
Total Expenditures	$69,985,801	$60,374,188	$58,929,304	$59,802,003	$50,852,210
Excess (Deficiency) of Revenues Over Expenditures	$ (597,089)	$6,170,517	$4,243,377	$ (511,860)	$6,296,760
Other Financing Sources (Uses):					
Transfers In (Out)	$ -	$ -	$ 230	$ -	$ -
Sale of Real or Personal Property	-	23,030	-	-	-
Total Other Financing Sources (Uses)	-	$23,030	$230	-	-
Net Change in Fund Balance	(597,089)	$6,193,547	$4,243,607	(511,860)	6,296,760
Beginning General Fund Balance	$35,507,876	$29,314,329	$25,070,722	$25,582,582	$19,285,822
Prior Period Adjustment	2,495,320 [2]	-	-	-	-
Ending General Fund Balance	$37,406,107	$35,507,876	$29,314,329	$25,070,722	$25,582,582

[1] Source: District's Audited Financial Statements

[2] Correction of misstatements in prior years. See APPENDIX B, "EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT - NOTES TO THE FINANCIAL STATEMENTS, NOTE F."

TABLE 14 - CURRENT INVESTMENTS[1]

As of July 31, 2021, the District's investable funds were invested in the following categories:

Description	Market Value	% of Total
Lone Star	$42,668,600	48.84%
TexSTAR	2,080,143	2.38%
TexPool Prime	4,690,906	5.37%
TCG Investments	2,073,293	2.37%
Cash in Bank	35,855,426	41.04%
	$87,368,367	100.00%

[1] Willis Independent School District.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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

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

Willis Independent School District

Annual Financial Report
For the Fiscal Year Ended August 31, 2020

Willis Independent School District

Annual Financial Report
For the Fiscal Year Ended August 31, 2020
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Willis Independent School District

Annual Financial Report
For the Fiscal Year Ended August 31, 2020
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Certificate of the Board

Willis Independent School District	**Montgomery**	**170-904**
Name of School District	County	Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ______ approved ______ disapproved for the fiscal year ended August 31, 2020 at a meeting of the Board of Trustees of such school district on the 27th day of January, 2021.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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Independent Auditor's Report

To the Board of Trustees of
Willis Independent School District
Willis, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Willis Independent School District (the District), as of and for the fiscal 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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
Main: 936.756.8127

The Board of Trustees of
Willis Independent School District

Opinions

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

Emphasis of Matter

As discussed in Note 4.F to the basic financial statements, the District restated the beginning net position and beginning fund balance, as applicable, for the governmental activities, general fund, nonmajor governmental funds, and internal service funds to correct misstatements in its previously issued 2019 financial statements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Board of Trustees of
Willis Independent School District

The 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 Supplementary Information and the Schedule of Expenditures or Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators (Other Information) 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 January 26, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Willis Independent School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 26, 2021

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Management's Discussion and Analysis

As management of the Willis Independent School District (the District), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2020. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net taxes receivable, claims payable of the District's self-insured workers' compensation program, and the net pension and OPEB liability.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by $40,613,213 (net position). Of this amount, $1,545,025 (unrestricted net position) was in a deficit due to implementation of Governmental Accounting Standards Board Statement No. 75 (Statement No. 75) in the prior fiscal years.
- The District's total net position, as restated, increased by $7,698,623 from current operations. See Note 4.F, for information regarding the prior period restatement.
- As of the close of the year, the District's governmental funds had combined ending fund balances of $83,300,661, a decrease of $5,030,036 from the preceding year, as restated. See Note 4.F, for information regarding the prior period restatement.
- At the end of the year, unassigned fund balance of the general fund was $16,841,745, or 24 percent of the year's total general fund expenditures.
- The District's total bonded debt decreased by $6,200,632 (4 percent) during the year.

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 basic financial statements. This report also contains required supplementary information and supplementary and other information in addition to the basic financial statements.

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

The *Statement of Net Position* (Exhibit A-1) presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position.* Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges.* The business-type activities of the District include the Enterprise Funds for *Early Bird Child Care*

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do 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 *near-term inflows and outflows of cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

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

The District maintained twenty-five individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects funds, which are considered to be major funds. Data from the other twenty-two governmental funds are combined into a single, aggregated presentation titled *total nonmajor funds.*

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

The basic governmental fund financial statements are noted in the table of contents of this report.

Proprietary Fund. The District maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses an enterprise fund to account for its Early Bird Child Care program. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. The District uses the internal service funds to account for the District's group health insurance benefits and workers' compensation risk management. Because these internal service funds predominantly benefit governmental operations, their financial activities have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide essentially the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements are provided with the basic financial statements and provide information for the Early Bird Child Care program and the self-funded group health insurance benefits and workers' compensation risk management programs.

The basic proprietary fund financial statements are noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students and student organizations. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs and activities. A statement of fiduciary assets and liabilities is the only financial statement presented for fiduciary funds, as noted in the table of contents of this report.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information, including schedules required by the Texas Education Agency. Such information is noted in the table of contents of this report.

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District’s most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $40,613,213.

Willis Independent School District's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2020 Amount	2019 Amount	2020 Amount	2019 Amount	2020 Amount	2019 Amount
Current and other assets	$101,352,305	$103,113,830	$ 627,562	$ 591,840	$101,979,867	$103,705,670
Capital assets, net of depreciation	155,975,352	149,786,270	-	-	155,975,352	149,786,270
Total assets	257,327,657	252,900,100	627,562	591,840	257,955,219	253,491,940
Total deferred outflows of resources	14,483,528	13,891,117	-	-	14,483,528	13,891,117
Long-term liabilities outstanding	201,344,085	204,074,749	-	-	201,344,085	204,074,749
Other liabilities	12,585,694	10,396,988	-	601	12,585,694	10,397,589
Total liabilities	213,929,779	214,471,737	-	601	213,929,779	214,472,338
Total deferred inflows of resources	17,895,755	12,845,822	-	-	17,895,755	12,845,822
Net position:						
Net investment in capital assets	40,642,382	32,346,176	-	-	40,642,382	32,346,176
Restricted for grants	982,930	10,696,328	-	-	982,930	10,696,328
Restricted for debt service	532,926	3,684,612	-	-	532,926	3,684,612
Unrestricted	(2,172,587)	(7,253,458)	627,562	591,239	(1,545,025)	(6,662,219)
Total net position	$ 39,985,651	$ 39,473,658	$ 627,562	$ 591,239	$ 40,613,213	$ 40,064,897

The largest portion of the District’s net position ($40,642,382) is net investment in capital assets (e.g., land and improvements, buildings and improvements, furniture, vehicles, and equipment, and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District’s 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.

Net position that is restricted for debt service and grants totaled $1,515,856.

Unrestricted net position of ($1,545,025) deficit resulted from the implementation of GASB Statement No. 75 for postemployment benefit (retiree health care provided through TRS-CARE) in the prior fiscal years.

Governmental Activities. Governmental Activities increased the District's net position by $7,662,300 and Business-type Activities increased the District's net positon by $36,323 from current operations. The District's beginning net position was decrease by ($7,150,307) as a result of a prior period restatement, see Note 4.F. Key elements of this change are as follows:

Willis Independent School District's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
	Amount	Amount	Amount	Amount	Amount	Amount
Revenue:						
Program revenues:						
Charges for services	$ 1,596,604	$ 2,280,629	$ 74,509	$ 105,020	$ 1,671,113	$ 2,385,649
Operating grants and contributions	14,711,141	13,550,939	-	-	14,711,141	13,550,939
General revenues:						
Property taxes, levied for general purposes	37,902,442	38,472,434	-	-	37,902,442	38,472,434
Property taxes, levied for debt service	11,712,376	11,498,755	-	-	11,712,376	11,498,755
Grants and contributions not restricted	27,262,259	23,855,328	-	-	27,262,259	23,855,328
Investment earnings	1,401,380	2,521,556	-	-	1,401,380	2,521,556
Miscellaneous local and intermediate	117,621	302,989	-	1,699	117,621	304,688
Total revenues	94,703,823	92,482,630	74,509	106,719	94,778,332	92,589,349
Expenses:						
Instruction	46,574,954	41,588,897	-	-	46,574,954	41,588,897
Instructional resources and media services	261,452	274,737	-	-	261,452	274,737
Curriculum and instructional staff development	2,016,786	1,730,379	-	-	2,016,786	1,730,379
Instructional leadership	255,575	242,669	-	-	255,575	242,669
School leadership	5,112,848	4,790,693	-	-	5,112,848	4,790,693
Guidance, counseling, and evaluation services	2,648,058	2,390,591	-	-	2,648,058	2,390,591
Social work services	180,443	174,727	-	-	180,443	174,727
Health services	751,396	816,924	-	-	751,396	816,924
Student transportation	3,593,164	3,804,914	-	-	3,593,164	3,804,914
Food services	4,406,064	4,320,196	-	-	4,406,064	4,320,196
Extracurricular activities	3,778,166	3,862,270	-	-	3,778,166	3,862,270
General administration	2,127,141	2,030,389	-	-	2,127,141	2,030,389
Plant maintenance and operations	8,482,142	7,553,061	-	-	8,482,142	7,553,061
Security and monitoring services	658,127	706,499	-	-	658,127	706,499
Data processing services	489,479	521,122	-	-	489,479	521,122
Community services	10,394	76,010	-	-	10,394	76,010
Interest on long-term debt	4,862,102	8,906,966	-	-	4,862,102	8,906,966
Issuance costs and fees	193,783	-	-	-	193,783	-
Facilities repair and maintenance	194,669	-	-	-	194,669	-
Payments to juvenile justice alternative education programs	2,635	9,265	-	-	2,635	9,265
Other intergovernmental charges	442,145	537,635	-	-	442,145	537,635
Early Bird Child Care	-	-	38,186	48,172	38,186	48,172
Total expenses	87,041,523	84,337,944	38,186	48,172	87,079,709	84,386,116
Change in net position	7,662,300	8,144,686	36,323	58,547	7,698,623	8,203,233
Net position - beginning, as originally reported	39,473,658	31,328,972	591,239	532,692	40,064,897	31,861,664
Prior period adjustment	(7,150,307)	-	-	-	(7,150,307)	-
Net position - beginning, as restated	32,323,351	31,328,972	591,239	532,692	32,914,590	31,861,664
Net position - ending	$39,985,651	$39,473,658	$ 627,562	$ 591,239	$40,613,213	$40,064,897

Revenues, aggregating $94,703,823, were generated primarily from two sources. Property taxes of $49,614,818 represent 52 percent of total revenues, while grants and contributions (program and general) totaling $41,973,400 represent 44 percent of total revenues. The remaining four percent is generated from investment earnings, charges for services, and miscellaneous revenues.

The primary functional expenses of the District is Instruction ($46,574,954), which represents 54 percent of total expenses. The remaining expense categories are individually less than 10 percent of total expenses. There were no significant changes in expenses by function.

Business-type Activities. Business-type activities increased the District's net position by $36,323, primarily due to decrease in operating expenses as a result of COVID-19.

Financial Analysis of the Government's Funds

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

Governmental Funds. At the end of the fiscal year, the District's governmental funds had combined ending fund balances of $83,300,661, a decrease of $5,030,036 from the preceding year as restated. Comments as to each major fund's change in fund balance follow.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was $16,841,745, while total fund balance was $37,406,140. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 24 percent of total general fund expenditures, while total fund balance represents 53 percent of that same total. The fund balance of the general fund decreased ($597,056) during the year, primarily as a result of the increase in facilities acquisitions and construction related expenditures.

The debt service fund ended the year with a total fund balance of $3,813,048, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased $128,436 during the year, primarily due to an increase in property taxes revenues from an increase in appraised values.

The capital projects fund has a total fund balance of $40,445,335, all of which is restricted for capital expenditures. The net decrease in fund balance during the current year in the capital projects fund was $2,988,959. The decrease was due to expending funds from bond proceeds issued in the prior year for capital asset acquisiton.

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

Proprietary Funds. The District's proprietary fund financial statements, reflecting enterprise and internal service funds created for its Early Bird Child Care program and self-funded group health insurance benefits and workers' compensation risk management programs, provides information as to profitability of those programs. The change in net position of the internal service fund is eliminated and allocated to the governmental expenses in the government-wide financial statements. The enterprise funds have been addressed in the discussion of the District's business-type activities.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year.

The most significant difference between the original budget and the final amended budget of the general fund was an increase of $12.9 million in facilities acquisition and construction expenditures, related to capital projects

The most significant difference between the final amended budget and actual expenditures of the general fund was $3.5 million in budgeted expenditures for facilities and acquisition and construction that was not expended. This was a result of timing delays for capital expenditures from the COVID-19 pandemic.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental and business-type activities as of August 31, 2020 was $155,975,352 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture, vehicles, and equipment, and construction in progress.

Major capital asset addition activity during the year included the following:

- Furniture and equipment totaling $982,848.
- Land and improvements totaling $1,247,501.
- Construction in progress totaling $11,597,143.

Willis Independent School District's Capital Assets
(net of depreciation)

	Governmental Activities	
	2020 Amount	2019 Amount
Land and improvements	$ 9,791,394	$ 8,543,893
Construction in progress	12,027,069	828,236
Buildings and improvements	129,949,850	135,350,990
Furniture, vehicles, and equipment	4,207,039	5,063,151
Totals	$ 155,975,352	$ 149,786,270

Commitments. At the end of the current fiscal year, the District's commitments with construction contractors totaled $22,978,723. The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

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

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

Willis Independent School District's Long-Term Liabilities Outstanding

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds*	$ 156,107,966	78	$ 162,308,598	78	$ (6,200,632)	(4)
Net pension liability	20,936,137	10	21,614,753	10	(678,616)	(3)
Net OPEB liability	24,299,982	12	25,259,276	12	(959,294)	(4)
Totals	$ 201,344,085	100	$ 209,182,627	100	$ (7,838,542)	

* Beginning balance for bonds was restated for prior period adjustment related to accreted interest on bonds.

The District's total debt decreased by $6,200,362 due to scheduled debt principal payments, current year bond refunding, and changes in the net pension and OPEB liabilities.

The District's general obligation debt is backed by the full faith and credit of the District and is further guaranteed by the Texas Permanent School Fund Bond Guarantee Program or by a municipal bond insurance policy. State statutes do not limit the tax rate or amount of local tax support of school districts' bonded indebtedness. However, approval by the Attorney General of the State of Texas is required prior to the sale of bonds.

Additional information on the District's long-term liabilities can be found in the notes to the financial statements per the table of contents.

Economic Factors and Next Year's Budget and Rates

- School year (2020-21) student enrollment is 7,882, an 11 percent increase from 7,104 in the preceding year.
- District staff totals 1,007 employees in 2020-21, excluding substitutes and other part-time employees, of which 434 are teachers and 132 are teacher aides and secretaries.
- The District maintains 10 regular education campuses.
- Property values of the District are projected to increase by 5 percent for the 2020-21 year.
- A maintenance and operations tax rate of $0.97 and a debt service tax rate of $0.30, a total rate of $1.27, were adopted for 2020-21. Preceding year rates were $.097, $0.30, and $1.27, respectively.

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

COVID-19
The full extent of the operational and financial impact the COVID-19 pandemic may have on the District is dependent on its duration and spread, any related operational restrictions, and the overall economy. The District has attempted to predict how COVID-19 will affect the results of its operations in the 2020-2021 fiscal year budget, but the results of its operations may vary as the virus' severity and the duration of the pandemic are uncertain.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Willis Independent School District business office at 204 West Rogers, Willis, Texas, 77378 or at (936)-856-1200.

Basic Financial Statements

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Willis Independent School District **Exhibit A-1**

Statement of Net Position

August 31, 2020

		1	2	3
		Primary Government		
Data Control Codes		Governmental Activities	Business-type Activities	Total
	ASSETS			
1110	Cash and cash equivalents	$ 5,088,595	$ 627,562	$ 5,716,157
1120	Current investments	88,698,062	-	88,698,062
1220	Property taxes receivable	2,145,985	-	2,145,985
1230	Allowance for uncollectible taxes	(21,700)	-	(21,700)
1240	Due from other governments	4,569,795	-	4,569,795
1290	Other receivables	62,758	-	62,758
1300	Inventories	10,090	-	10,090
1410	Prepaid items	798,720	-	798,720
	Capital assets, not being depreciated:			
1510	Land and improvements	9,791,394	-	9,791,394
1580	Construction in progress	12,027,069	-	12,027,069
	Capital assets, net of accumulated depreciated:			
1520	Buildings and improvements	129,949,850	-	129,949,850
1530	Furniture, vehicles, and equipment	4,207,039	-	4,207,039
1000	Total assets	257,327,657	627,562	257,955,219
	DEFERRED OUTFLOWS OF RESOURCES			
1705	Deferred outflows - pension	10,215,489	-	10,215,489
1706	Deferred outflows - OPEB	3,503,514	-	3,503,514
1710	Deferred charge on refunding	764,525	-	764,525
1700	Total deferred outflows of resources	14,483,528	-	14,483,528
	LIABILITIES			
2110	Accounts payable	4,772,694	-	4,772,694
2140	Interest payable	256,597	-	256,597
2150	Payroll deductions and withholdings	102,234	-	102,234
2160	Accrued wages payable	4,585,074	-	4,585,074
2180	Due to other governments	2,380,381	-	2,380,381
2200	Accrued liabilities	488,714	-	488,714
	Noncurrent liabilities:			
2501	Due within one year - Note 3.E.	5,784,278	-	5,784,278
2502	Due in more than one year - Note 3.E.	150,323,688	-	150,323,688
2540	Net pension liability	20,936,137	-	20,936,137
2545	Net OPEB liability	24,299,982	-	24,299,982
2000	Total liabilities	213,929,779	-	213,929,779
	DEFERRED INFLOWS OF RESOURCES			
2605	Deferred inflows - pension	3,411,423	-	3,411,423
2606	Deferred inflows - OPEB	10,512,532	-	10,512,532
2610	Deferred gain on refunding	3,971,800	-	3,971,800
2600	Total deferred inflows of resources	17,895,755	-	17,895,755
	NET POSITION			
3200	Net investment in capital assets	40,642,382	-	40,642,382
3820	Restricted for grants	982,930	-	982,930
3850	Restricted for debt service	532,926	-	532,926
3900	Unrestricted	(2,172,587)	627,562	(1,545,025)
3000	**TOTAL NET POSITION**	$ 39,985,651	$ 627,562	$ 40,613,213

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District
Statement of Activities
For the Fiscal Year Ended August 31, 2020

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues Charges for Services	4 Program Revenues Operating Grants and Contributions
	PRIMARY GOVERNMENT			
	Governmental activities:			
0011	Instruction	$ 46,574,954	$ 58,206	$ 8,804,143
0012	Instructional resources and media services	261,452	-	5,948
0013	Curriculum and instructional staff development	2,016,786	307	824,909
0021	Instructional leadership	255,575	-	67,380
0023	School leadership	5,112,848	479	464,595
0031	Guidance, counseling, and evaluation services	2,648,058	560	497,045
0032	Social work services	180,443	-	4,799
0033	Health services	751,396	-	95,444
0034	Student transportation	3,593,164	13,242	170,729
0035	Food services	4,406,064	803,322	2,751,545
0036	Extracurricular activities	3,778,166	716,884	192,039
0041	General administration	2,127,141	-	181,437
0051	Plant maintenance and operations	8,482,142	3,604	423,910
0052	Security and monitoring services	658,127	-	-
0053	Data processing services	489,479	-	15,460
0061	Community services	10,394	-	6,726
0072	Interest on long-term debt	4,862,102	-	205,032
0073	Issuance costs and fees	193,783	-	-
0081	Facilities repair and maintenance	194,669	-	-
0095	Payments to juvenile justice alternative education programs	2,635	-	-
0099	Other intergovernmental charges	442,145	-	-
TG	Total governmental activities	87,041,523	1,596,604	14,711,141
	Business-type activities:			
01	Early Bird Child Care	38,186	74,509	-
TB	Total business-type activities	38,186	74,509	-
TP	**TOTAL PRIMARY GOVERNMENT**	$ 87,079,709	$ 1,671,113	$ 14,711,141

Data Control Codes	
	General revenues:
MT	Property taxes, levied for general purposes
DT	Property taxes, levied for debt service
GC	Grants and contributions not restricted to specific programs
IE	Investment earnings
MI	Miscellaneous
TR	Total general revenues
CN	Change in net position
NB	Net position - beginning, as originally reported
PA	Prior period adjustments
	Net position - beginning, as restated
NE	**NET POSITION - ENDING**

The Notes to the Financial Statements are an integral part of this statement.

6	7	8
Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	**Business-type Activities**	**Total**
$ (37,712,605)	$ -	$ (37,712,605)
(255,504)	-	(255,504)
(1,191,570)	-	(1,191,570)
(188,195)	-	(188,195)
(4,647,774)	-	(4,647,774)
(2,150,453)	-	(2,150,453)
(175,644)	-	(175,644)
(655,952)	-	(655,952)
(3,409,193)	-	(3,409,193)
(851,197)	-	(851,197)
(2,869,243)	-	(2,869,243)
(1,945,704)	-	(1,945,704)
(8,054,628)	-	(8,054,628)
(658,127)	-	(658,127)
(474,019)	-	(474,019)
(3,668)	-	(3,668)
(4,657,070)	-	(4,657,070)
(193,783)	-	(193,783)
(194,669)	-	(194,669)
(2,635)	-	(2,635)
(442,145)	-	(442,145)
(70,733,778)	-	(70,733,778)
-	36,323	36,323
-	36,323	36,323
(70,733,778)	36,323	(70,697,455)
37,902,442	-	37,902,442
11,712,376	-	11,712,376
27,262,259	-	27,262,259
1,401,380	-	1,401,380
117,621	-	117,621
78,396,078	-	78,396,078
7,662,300	36,323	7,698,623
39,473,658	591,239	40,064,897
(7,150,307)	-	(7,150,307)
32,323,351	591,239	32,914,590
$ 39,985,651	$ 627,562	$ 40,613,213

Willis Independent School District
Balance Sheet – Governmental Funds
August 31, 2020

Data Control Codes		199 General Fund	599 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 1,516,619	$ 609,469
1120	Current investments	42,005,501	3,079,013
1220	Property taxes receivable	1,627,374	518,611
1230	Allowance for uncollectible taxes	(16,500)	(5,200)
1240	Due from other governments	2,829,168	12,182
1260	Due from other funds	1,540,885	98,154
1290	Other receivables	45,528	14,230
1300	Inventories	10,090	-
1410	Prepaid items	798,720	-
1000	Total assets	50,357,385	4,326,459
1000a	**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**	$ 50,357,385	$ 4,326,459
	LIABILITIES		
2110	Accounts payable	$ 2,909,106	$ -
2150	Payroll deductions and withholdings	102,234	-
2160	Accrued wages payable	4,434,305	-
2170	Due to other funds	1,514,345	-
2180	Due to other governments	2,380,381	-
2200	Accrued liabilities	-	-
2000	Total liabilities	11,340,371	-
	DEFERRED INFLOWS OF RESOURCES		
2620	Unavailable revenue - property taxes	1,610,874	513,411
	Total deferred inflows of resources	1,610,874	513,411
	FUND BALANCES		
3410	Nonspendable - inventories	10,090	-
3430	Nonspendable - prepaid items	798,720	-
3450	Restricted - grant funds	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	-	3,813,048
3545	Committed - other	19,700,000	-
3590	Assigned - purchases on order	55,585	-
3600	Unassigned	16,841,745	-
3000	Total fund balances	37,406,140	3,813,048
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 50,357,385	$ 4,326,459

The Notes to the Financial Statements are an integral part of this statement.

Exhibit C-1

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 468,725	$ 1,266,750	$ 3,861,563
41,033,448	505,843	86,623,805
-	-	2,145,985
-	-	(21,700)
-	1,728,445	4,569,795
-	299,518	1,938,557
-	3,000	62,758
-	-	10,090
-	-	798,720
41,502,173	3,803,556	99,989,573
$ 41,502,173	$ 3,803,556	$ 99,989,573
$ 1,055,838	$ 442,350	$ 4,407,294
-	-	102,234
-	150,769	4,585,074
1,000	1,574,001	3,089,346
-	-	2,380,381
-	298	298
1,056,838	2,167,418	14,564,627
-	-	2,124,285
-	-	2,124,285
-	-	10,090
-	-	798,720
-	982,930	982,930
40,445,335	-	40,445,335
-	-	3,813,048
-	653,208	20,353,208
-	-	55,585
-	-	16,841,745
40,445,335	1,636,138	83,300,661
$ 41,502,173	$ 3,803,556	$ 99,989,573

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Willis Independent School District **Exhibit C-1R**

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
August 31, 2020

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)			$ 83,300,661
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:			
Governmental capital assets costs	$	223,635,896	
Accumulated depreciation of governmental capital assets		(67,660,544)	155,975,352
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.			2,124,285
Long-term liabilities, including bonds payable, and net pension and OPEB liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:			
Bonds payable, at original par	$	(141,038,987)	
Premium on bonds payable		(11,532,043)	
Accrued interest on the bonds		(256,597)	
Accreted interest on the bonds		(3,536,936)	
Deferred charge on refunding		764,525	
Deferred gain on refunding		(3,971,800)	
Net pension liability		(20,936,137)	
Net OPEB liability		(24,299,982)	(204,807,957)
An internal service fund is used by the District to charge the costs of health insurance and workers' compensation benefits to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			3,598,262
Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.			10,215,489
Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.			(3,411,423)
Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.			3,503,514
Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.			(10,512,532)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)			$ 39,985,651

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District

Statement of Revenues, Expenditures, and Changes
in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2020

Data Control Codes		199 General Fund	599 Debt Service Fund
	REVENUES		
5700	Local and intermediate sources	$ 38,448,651	$ 11,644,634
5800	State program revenues	30,073,481	205,032
5900	Federal program revenues	866,580	-
5020	Total revenues	69,388,712	11,849,666
	EXPENDITURES		
	Current:		
0011	Instruction	35,240,846	-
0012	Instructional resources and media services	160,811	-
0013	Curriculum and instructional staff development	1,090,778	-
0021	Instructional leadership	181,514	-
0023	School leadership	4,266,840	-
0031	Guidance, counseling, and evaluation services	2,124,601	-
0032	Social work services	176,867	-
0033	Health services	673,934	-
0034	Student transportation	3,688,255	-
0035	Food services	-	-
0036	Extracurricular activities	1,656,805	-
0041	General administration	1,919,726	-
0051	Plant maintenance and operations	7,763,283	-
0052	Security and monitoring services	705,666	-
0053	Data processing services	443,149	-
0061	Community services	-	-
	Debt service:		
0071	Principal on long-term debt	-	4,068,995
0072	Interest on long-term debt	-	7,585,317
0073	Issuance costs and fees	-	193,783
	Capital outlay:		
0081	Facilities acquisition and construction	9,447,913	-
	Intergovernmental:		
0095	Payments to juvenile justice alternative education programs	2,635	-
0099	Other intergovernmental charges	442,145	-
6030	Total expenditures	69,985,768	11,848,095
1100	Excess (deficiency) of revenues over (under) expenditures	(597,056)	1,571
	OTHER FINANCING SOURCES (USES)		
7901	Issuance of refunding bond	-	7,610,000
7916	Premium or discount on issuance of bonds	-	898,405
8940	Payment to bond refunding escrow agent	-	(8,381,540)
7080	Total other financing sources (uses)	-	126,865
1200	Net change in fund balances	(597,056)	128,436
0100	Fund balances - beginning	35,507,876	3,684,612
1300	Prior period adjustment	2,495,320	-
	Fund balances - beginning, as restated	38,003,196	3,684,612
3000	**FUND BALANCES - ENDING**	$ 37,406,140	$ 3,813,048

The Notes to the Financial Statements are an integral part of this statement.

Exhibit C-2

699 Capital Projects Fund	Total Nonmajor Funds	98 Total Governmental Funds
$ 602,441	$ 1,519,431	$ 52,215,157
-	1,026,495	31,305,008
-	6,813,101	7,679,681
602,441	9,359,027	91,199,846
-	5,130,703	40,371,549
-	-	160,811
-	670,553	1,761,331
-	38,465	219,979
-	25,901	4,292,741
-	220,831	2,345,432
-	-	176,867
-	1,382	675,316
-	-	3,688,255
-	4,011,398	4,011,398
-	711,254	2,368,059
-	-	1,919,726
-	120,456	7,883,739
-	-	705,666
-	-	443,149
-	541	541
-	-	4,068,995
-	-	7,585,317
-	-	193,783
3,591,400	-	13,039,313
-	-	2,635
-	-	442,145
3,591,400	10,931,484	96,356,747
(2,988,959)	(1,572,457)	(5,156,901)
-	-	7,610,000
-	-	898,405
-	-	(8,381,540)
-	-	126,865
(2,988,959)	(1,572,457)	(5,030,036)
43,434,294	7,162,323	89,789,105
-	(3,953,728)	(1,458,408)
43,434,294	3,208,595	88,330,697
$ 40,445,335	$ 1,636,138	$ 83,300,661

Willis Independent School District **Exhibit C-3**

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended August 31, 2020

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)		$ (5,030,036)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.		
Capital assets increased	$ 13,827,492	
Depreciation expense	(5,513,247)	8,314,245
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		515,266
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par value	$ (7,610,000)	
(Premium) discount	(898,405)	(8,508,405)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		4,068,995
Payment to escrow agent to refund bonds from refunding proceeds		8,381,540
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The changes reported in the statement of activities consists of the following:		
Accreted interest paid	$ 1,831,005	
Interest accreted on capital appreciation bonds	(260,063)	
Accrued interest on current interest bonds payable (*increased) decreased*	(1,682)	
Amortization of bond premium	754,100	
Amortization of deferred charge on refundings	(96,620)	
Amortization of deferred gain on refundings	496,475	2,723,215
An internal service fund is used by the District to charge the costs of health insurance and workers' compensation benefits to the individual funds. The net activity of the internal service fund was reported in the government-wide statements.		483,485
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ (1,400,456)	
Deferred inflows (increased) decreased	(2,226,860)	
Net pension liability (increased) decreased	678,616	(2,948,700)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred outflows increased (decreased)	$ 1,228,342	
Deferred inflows (increased) decreased	(2,524,941)	
Net OPEB liability (increased) decreased	959,294	(337,305)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)		$ 7,662,300

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District **Exhibit D-1**

Statement of Net Position

Proprietary Funds

August 31, 2020

Data Control Codes		Business-type Activity Enterprise Fund Early Bird Child Care	Governmental Activities Total Internal Service Funds
	ASSETS		
	Current assets:		
1110	Cash and cash equivalents	$ 627,562	$ 1,227,032
1120	Current investments	-	2,074,257
1260	Due from other funds	-	1,150,789
	Total current assets	627,562	4,452,078
1000	Total assets	627,562	4,452,078
	LIABILITIES		
	Current liabilities:		
2110	Accounts payable	-	365,400
2200	Accrued liabilities	-	488,416
	Total current liabilities	-	853,816
2000	Total liabilities	-	853,816
	NET POSITION		
3900	Unrestricted	627,562	3,598,262
3000	**TOTAL NET POSITION**	$ 627,562	$ 3,598,262

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District **Exhibit D-2**

Statement of Revenues, Expenses, and Changes
in Net Position – Proprietary Funds
For the Fiscal Year Ended August 31, 2020

Data Control Codes		Business-type Activity Enterprise Fund Early Bird Child Care	Governmental Activities Total Internal Service Funds
	OPERATING REVENUES		
5700	Charges for services	$ 74,509	$ -
5700	Contributions from employer	-	7,200,242
5020	Total operating revenues	74,509	7,200,242
	OPERATING EXPENSES:		
6100	Payroll costs	37,695	-
6200	Professional and contracted services	-	593,048
6300	Supplies and materials	491	15,859
6400	Claims expense, net of provision adjustments	-	6,146,527
6030	Total operating expenses	38,186	6,755,434
1100	Operating income	36,323	444,808
	NONOPERATING REVENUES (EXPENSES)		
7955	Earnings from temp. deposits and investments	-	38,677
7950	Total nonoperating revenues (expenses)	-	38,677
1300	Change in net position	36,323	483,485
0100	Net position - beginning	591,239	3,534,005
	Prior period adjustment	-	(419,228)
	Net position - beginning, as restated	591,239	3,114,777
3300	**NET POSITION - ENDING**	$ 627,562	$ 3,598,262

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District **Exhibit D-3**

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended August 31, 2020

	Business-type Activity — Enterprise Fund — Student Activity	Governmental Activities — Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	$ 222,424	$ 6,161,319
Cash payments for employees services and benefits	(37,695)	-
Cash payments for other operating expenses	(1,092)	(6,250,733)
Net cash provided by (used for) operating activities	183,637	(89,414)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	38,677
Sale of investments	-	777,726
Net cash provided by (used for) investing activities	-	816,403
Net increase (decrease) in cash and cash equivalents	183,637	726,989
Cash and cash equivalents at the beginning of the year	443,925	500,043
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 627,562	$ 1,227,032
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	$ 36,323	$ 444,808
Effect of increases and decreases in current assets and liabilities:		
(Increase) decrease in due from other funds	147,915	(418,125)
Increase (decrease) in accounts payable	-	368,971
Increase (decrease) in accrued wages payable	(601)	-
Increase (decrease) in due to other funds	-	(620,798)
Increase (decrease) in accrued liabilities	-	135,730
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 183,637	$ (89,414)

The Notes to the Financial Statements are an integral part of this statement.

Willis Independent School District **Exhibit E-1**

Statement of Assets and Liabilities
Fiduciary Fund
August 31, 2020

Data Control Codes		Agency Fund Student Activity
	ASSETS	
1110	Cash and cash equivalents	$ 109,959
1120	Current investments	6,520
1000	**TOTAL ASSETS**	$ 116,479
	LIABILITIES	
2110	Accounts payable	$ 190
2190	Due to student groups	116,289
2000	**TOTAL LIABILITIES**	$ 116,479

The Notes to the Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (the District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

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

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the District's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following major governmental funds:

> The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.
>
> The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.
>
> The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

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

The *enterprise funds* account for the District's operation of a before and after school care program (Early Bird Child Care). This fund is supported principally by revenues generated through program fees.

The *internal service funds* accounts for the operations of the District's health and worker's compensation, which provides services to other departments inside the District on a cost reimbursement basis.

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

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in business-type activities column.

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is all considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

1. Cash and Cash Equivalents

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

2. Investments

Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

3. Inventories and Prepaid Items

Inventories are valued at cost using the average cost method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

4. Capital Assets

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

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

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

Capital Asset Classes	Lives
Buildings and improvements	20 - 40
Furniture, vehicles and equipment	8 - 20

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

6. 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.

7. 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.

8. Fund Balance Policies

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

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

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

9. Pension

The fiduciary net position of the Teacher Retirement System of Texas (TRS) Pension 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 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 Pension Plan 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.

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

G. Revenues and Expenditures/Expenses

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

2. Property Taxes
Property values are determined by the County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of January 1 of each year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses
Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Use of Estimates

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

I. Data Control Codes

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, National School Breakfast and Lunch Program special revenue fund, and debt service fund. All annual appropriations lapse at fiscal year end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund and function. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2020, the District's expenditures did not exceed appropriations in the functions (the legal level of budgetary control).

C. Encumbrances

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

Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:	
	Restricted Fund Balance	Assigned Fund Balance
General fund	$ -	$ 55,585
Capital projects fund	23,030,550	
Nonmajor funds	11,269	-
Total encumbrances	$ 23,041,819	$ 55,585

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

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

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

For fiscal year 2020, the District invested in certificates of deposit, money market mutual funds, U.S. agency securities, municipal bonds, the Texas Local Government Investment Pool (TexPool), Texas Association of School Boards Lone Star Investment Pool (Lone Star), and TexSTAR. The District's investment balances, weighted average maturity, and credit risk of such investments are as follows:

	August 31, 2020	Other Observable Inputs (Level 2)	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost, not subject to level reporting:					
Investment pools:					
TexPool - Local Government Investment Pool	$ 4,688,207	$ -	5%	32	AAAm*
Lone Star - Government Overnight Fund	38,146	-	0%	24	AAAm*
Lone Star - Corporate Overnight Fund	381,846	-	0%	54	AAAm*
TexSTAR Investment Pool	4,578,950	-	5%	28	AAAm*
Certificates of deposit	6,520	-	0%	10	Not rated**
Investments measured at fair value, not subject to level reporting:					
Investment pools:					
Lone Star - Corporate Overnight Plus Fund	76,937,620	-	87%	65	AAA*
Money market mutual funds	22,921	-	0%	36	AAAm*
Investments measured at fair value, subject to level reporting:					
US Agency Securities:					
FHLB	301,408	301,408	0%	102	Aaa*
FFCB	596,398	596,398	1%	112	Aaa*
Municipal bonds	729,677	729,677	1%	354	Aa2/Aa3*
Certificates of deposit	422,889	422,889	0%	300	Not rated**
Total value	$ 88,704,582	$2,050,372	100%		
Portfolio weighted average maturity				65	

* Standard & Poor's Rating
**Certificates are insured or collateralized

The TexPool, Lone Star – Government Overnight Fund, Lone Star – Corporate Overnight Fund, and TexSTAR investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of $1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. These investment pools have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity. Such investment pools are measured at amortized cost. Such investments are not required to be reported in the fair value hierarchy.

Certificates of deposit not brokered are measured at cost. Such investments are not required to be reported in the fair value hierarchy.

Lone Star Corporate Overnight Plus Fund is measured at fair value and is to provide safety of principal, daily liquidity, and the highest possible rate of return. This fund seeks to maintain a net asset value of one dollar, and its dollar-weighted average maturity is 120 days or fewer. The fund may invest in all securities authorized under the Public Funds Investment Act; however, the fund has additional restrictions for SEC regulated money market mutual funds and fully collateralized repurchase agreements.

U.S. Government Agency Securities, Municipal Bonds, and brokered Certificates of Deposit are classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Money Market Mutual Funds are Institutional Prime and Institutional Tax Exempt money market mutual funds required to price and transact at a net asset value per share that fluctuate based upon the pricing of the underlying portfolio of securities. Such funds are not subject to level reporting of the fair value hierarchy.

Credit Risk
At year-end, the District's investments were rated as noted in the preceding table. All credit ratings met acceptable levels required by legal guidelines prescribed by both the PFIA and the District's investment policy.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District is not to exceed one year from the time of purchase.

Concentration of Credit Risk
The District's investment policy does not limit an investment in any one issuer.

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

Custodial Credit Risk – Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk.

B. Receivables

Tax revenues of the general and debt service fund are reported net of estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to general fund property taxes	$	342,010
Change in uncollectibles related to debt service property taxes		111,035
Total change in uncollectibles in the current fiscal year	$	453,045

Approximately 67% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

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

Funds	Interfund Receivables	Interfund Payables
Governmental funds:		
General fund	$ 1,540,885	$ 1,514,345
Debt service fund	98,154	-
Capital projects fund	-	1,000
Nonmajor governmental funds	299,518	1,574,001
Proprietary funds:		
Internal service funds	1,150,789	-
Totals	$ 3,089,346	$ 3,089,346

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

2. Transfers

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. There were no interfund transfers between the various funds for the fiscal year ended August 31, 2020.

D. Capital Assets

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

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments *	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	$ 8,543,893	$ 1,247,501	$ -	$ 9,791,394
Construction in progress	828,236	11,597,143	(398,310)	12,027,069
Total capital assets, not being depreciated	9,372,129	12,844,644	(398,310)	21,818,463
Capital assets, being depreciated:				
Buildings and improvements	190,166,446	-	(562,678)	189,603,768
Furniture, vehicles, and equipment	14,100,618	982,848	(2,869,801)	12,213,665
Total capital assets, being depreciated	204,267,064	982,848	(3,432,479)	201,817,433
Less accumulated depreciation for:				
Buildings and improvements	(54,815,456)	(4,788,069)	(50,393)	(59,653,918)
Furniture, vehicles, and equipment	(9,037,467)	(725,178)	1,756,019	(8,006,626)
Total accumulated depreciation	(63,852,923)	(5,513,247)	1,705,626	(67,660,544)
Total capital assets, being depreciated, net	140,414,141	(4,530,399)	(1,726,853)	134,156,889
Governmental activities capital assets, net	$ 149,786,270	$ 8,314,245	$ (2,125,163)	$ 155,975,352

*The District reported a prior period adjustment of $2,125,163 to reconcile to the capital asset detail.

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

Governmental activities:		
11	Instruction	$ 2,396,481
12	Instructional resources and media services	98,564
23	School leadership	381,067
31	Guidance, counseling, and evaluation services	7,418
33	Health services	16,388
34	Student transportation	536,641
35	Food services	237,167
36	Extracurricular activities	1,285,502
41	General administration	11,379
51	Plant maintenance and operations	452,573
52	Security and monitoring services	33,115
53	Data processing	56,952
Total depreciation expense-governmental activities		$ 5,513,247

Construction Commitments

The District has active construction projects as of August 31, 2020. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project	Remaining Commitment
New Administration Building	$ 2,416,588
Lynn Lucas Middle School Roof Replacement	363,977
Elementary School Number 6	20,198,158
Total	$ 22,978,723

The commitment for construction and equipment of school facilities is being financed by general obligation bonds secured by tax revenues and local funds.

E. Long-term Liabilities

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

Changes in Long-term Liabilities

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

	Beginning Balance	Additions/ (Provision Adjustments)	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds, par	$ 145,812,982	$ 7,610,000	$ (12,383,995)	$ 141,038,987	$ 3,976,694
Accreted interest on capital appreciation bonds*	5,107,878	260,063	(1,831,005)	3,536,936	1,807,584
Issuance premiums	11,387,738	898,405	(754,100)	11,532,043	-
Total bonds payable	162,308,598	8,768,468	(14,969,100)	156,107,966	5,784,278
Net pension liability	21,614,753	3,585,108	(4,263,724)	20,936,137	-
Net OPEB liability	25,259,276	3,040,816	(4,000,110)	24,299,982	-
Governmental activities long-term liabilities	$ 209,182,627	$ 15,394,392	$ (23,232,934)	$ 201,344,085	$ 5,784,278

*The District reported a prior period adjustment of $5,107,878 to reconcile accreted interest on capital apprecaition bonds.

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as current interest in capital appreciation bonds (CAB) with various amounts of principal maturing each year. Rates may be fixed or variable.

The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
1998 BLDG & REF CAB	5.275-5.275%	16,275,076	2022	$ 922,982	$ -	$ (333,995)	$ 588,987
2010 REF	2.00-4.00%	13,365,000	2025	8,895,000	-	(8,895,000)	-
2012 REF	2.00-3.25%	6,160,000	2031	5,585,000	-	(45,000)	5,540,000
2015 REF	2.00-5.00%	27,220,000	2028	20,495,000	-	(2,695,000)	17,800,000
2016 BLDG & REF	2.00-5.00%	71,090,000	2045	70,795,000	-	(305,000)	70,490,000
2017 BLDG & REF	2.00-5.00%	39,885,000	2045	39,120,000	-	(110,000)	39,010,000
2019 REF	4.00-5.00%	7,610,000	2025	-	7,610,000	-	7,610,000
Totals				$ 145,812,982	$ 7,610,000	$ (12,383,995)	$ 141,038,987

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

Year Ending August 31,	Principal	Interest	Total Requirements
2021	$ 3,976,694	$ 7,620,431	$ 11,597,125
2022	4,077,293	7,518,705	11,595,998
2023	5,575,000	5,455,419	11,030,419
2024	5,775,000	5,237,525	11,012,525
2025	6,010,000	4,967,250	10,977,250
2026-2030	28,965,000	20,685,787	49,650,787
2031-2035	25,100,000	15,134,869	40,234,869
2036-3040	27,680,000	9,703,700	37,383,700
2041-2045	33,880,000	3,496,400	37,376,400
Totals	$ 141,038,987	$ 79,820,086	$ 220,859,073

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

In November 2019, the District issued $7,610,000 of Unlimited Tax Refunding Bonds, Series 2019. The issuance refunded $8,315,000 of the District's Series 2010 Bonds, and was initiated to lower overall annual debt service requirements of the District and to pay the costs of issuance of the Unlimited Tax Refunding Bonds, Series 2019. The net carrying value of the old debt was less than the reacquisition price by $492,670. The amount is netted against the new debt and amortized over the life of the new debt. Cash flow savings were $636,950 while net present value savings were $602,165 for the refunded bonds. The bonds are scheduled to mature on February 15, 2025.

The District defeased certain bonds through the issuance of new bonds and placed the proceeds in an irrevocable trust to provide for all future debt service payments of the old bonds. Securities being utilized to repay the refinanced debt as it becomes due consist solely of U.S. government obligations. Accordingly, the trust account securities and the liability for the defeased bonds are not included in the District's basic financial statements. As of August 31, 2020, there were $8,315,000 of defeased bonds outstanding.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Governmental funds:	
General fund - future land purchases	$ 3,000,000
General fund - major maintenance	12,850,000
General fund - roof repair costs	3,000,000
General fund - capital replacement	850,000
Nonmajor funds - campus activity	653,208
Total other committed fund balance	$ 20,353,208

G. Revenues from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources of the governmental funds consisted of the following:

	General	Debt Service	Capital Projects Funds	Nonmajor Governmental Funds	Totals
Property taxes	$ 37,512,718	$ 11,586,834	$ -	$ -	$ 49,099,552
Investment income	727,671	57,800	602,441	13,468	1,401,380
Charges for services	105,023	-	-	1,491,581	1,596,604
Other	103,239	-	-	14,382	117,621
Totals	$ 38,448,651	$ 11,644,634	$ 602,441	$ 1,519,431	$ 52,215,157

Note 4. Other Information

A. Risk Management

General
Like all public school districts, the District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the District purchased commercial insurance or participated in risk pools in which the District transfers the risk for claims related to property and liability risks.

Health Insurance
During the period ended August 31, 2020, employees of the District were covered by a partially self-insured health insurance plan (the Plan) accounted for through an internal service fund. The District made contributions to cover the employees and, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to a third party administrator acting on behalf of the District. The Plan was authorized by state statute and was documented by contractual agreement. The contract between the District and the third party administrator is renewable annually.

In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage up to $160,000 per individual carried through a commercial insurer licensed to do business in Texas in accordance with the Texas Insurance Code. Estimates of claims payable and of claims incurred but not reported at August 31, 2020, are reflected as accrued expenses of the internal service fund. The liabilities include an amount for claims that have been incurred but were not reported until after August 31, 2020. Because actual claims liabilities, depend on such complex factors as inflation, changes in legal requirements and damage awards, the process used in computing claims liability is an estimate.

Workers' Compensation
During the fiscal year ended August 31, 2020, employees of the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

Willis ISD participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2019, the Fund carries a discounted reserve of $45,439,534 for future development on reported claims and claims that have been incurred but not yet reported. For the fiscal year ended August 31, 2020, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The liability estimation requires the estimate of loss development over an extended period of time. During the self-insurance period of time, numerous internal and external factors will affect the ultimate settlement value of claims. Due to the inherent uncertainty with regard to the impact of these factors, there can be no guarantee that actual losses will not vary, perhaps significantly, from the estimates. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverage for each of the past three fiscal years.

Health and Workers' Compensation Claims Liability

Analysis of claims liability for the health and workers' compensation fund, for the fiscal years ended 2020 as follows:

	Year Ended August 31, 2020
Unpaid claims, beginning of fiscal year*	$ 352,686
Incurred claims (including IBNRs and changes in provisions)	4,419,633
Claim payments	(4,283,903)
Unpaid claims, end of fiscal year	$ 488,416

*The District reported a prior period adjustment of $352,686 to reconcile unpaid claims.

B. Litigation and Contingencies

The District is generally involved in legal claims or assessments arising principally in the normal course of operations. In the opinion of the District's management, the District does not expect a loss and such matters will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2020, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.texas.gov/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698; or by calling (512) 542-6592.

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 where 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 postemployment benefit changes, including automatic cost of living adjustments (COLAs). Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as previously noted in the Plan Description above.

Contributions

Employee contribution rates are set in state statute, Texas Government Code 825.402. Contribution requirements are established or amended pursuant to Article XVI, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Rates for such plan fiscal years are as follows:

	Contribution Rates	
	2020	2019
Member	7.7%	7.7%
Non-employer contributing entity (State)	7.5%	6.8%
Employers (District)	7.5%	6.8%
Employers (District - Non-OASDI)*	1.5%	1.5%

*SB12 requires an increase in employer contributions by public school districts, charter schools and regional education service centers. Prior to SB12, only those employers not participating in social security were required to pay a 1.5% contributions (Non-OASDI surcharge). Beginning September 1, 2019 all employers are required to pay the Public Education Employer contribution irrespective of participation in social security.

The contribution amounts for the District's fiscal year 2020 are as follows:

District contributions	$ 1,501,458
Member contributions	3,577,939
NECE on-behalf contributions (State)	2,209,681

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.

As the non-employer contributing entity, 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 the 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, local or non-educational and general funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two 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 member's salary.

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

At August 31, 2020, the District reported a liability of $20,936,137 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 are as follows:

District's proportionate share of the net pension liability	$ 20,936,137
State's proportionate share of the net pension liability associated with the District	29,856,517
Total	$ 50,792,654

The net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as August 31, 2018 rolled forward to August 31, 2019. 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 the measurement date of August 31, 2019, the District's proportion of the collective net pension liability was 0.0402749%, which was an increase of 0.0010056% from its proportion measured as of August 31, 2018.

For the fiscal year ended August 31, 2020, the District recognized pension expense of $9,140,196 and revenue of $4,690,038 for support provided by the State.

At August 31, 2020, the District reported 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 experience	$ 87,951	$ 726,936
Changes of assumptions	6,495,418	2,684,214
Difference between projected and actual earnings on pension plan investments	210,223	-
Changes in proportion and differences between District's contributions and the proportionate share of contributions	1,920,439	273
District contributions paid subsequent to the measurement date	1,501,458	-
Totals	$ 10,215,489	$ 3,411,423

$1,501,458 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (income) as follows:

Year Ending August 31,	
2021	$ 1,364,771
2022	1,119,108
2023	1,329,900
2024	1,247,171
2025	412,792
Thereafter	(171,134)
Total	$ 5,302,608

Actuarial Methods and Assumptions

The actuarial valuation of the total pension liability was performed as of August 31, 2018. Update procedures were used to roll forward the total pension liability to August 31, 2019 and was determined using the following actuarial methods and assumptions:

Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	7.25%
Long-term expected rate of return	7.25%
Municipal bond rate as of August 2019	2.63%. Source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.30%
Salary increases	3.05% to 9.05% including inflation
Ad hoc postemployment benefit changes	None
Active mortality rates	Based on 90% of the RP 2014 Employing Mortality Tables for males and females with full generational mortality. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables with full generational projection using the ultimate improvement rates from the most recently published projection scale U-MP

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

Discount Rate and Long-Term Expected Rate of Return

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 pension plan investments of 7.25%. The projection of cash flows used to determine the single discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity will be made at the statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2019 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Arithmetic Real Rate or Return
Global equity:		
U.S.	18.00%	5.70%
Non-U.S. developed	13.00%	6.90%
Emerging markets	9.00%	8.95%
Directional hedge funds	4.00%	3.53%
Private equity	13.00%	10.18%
Stable value:		
U.S. treasuries	11.00%	1.11%
Stable value hedge funds	4.00%	3.09%
Real return:		
Global inflation linked bonds	3.00%	0.70%
Real estate	14.00%	5.21%
Energy, natural resources and infrastructure	5.00%	7.48%
Risk parity:		
Risk parity	5.00%	3.70%
Asset allocation leverage cash	1.00%	(0.30%)
Totals	100.00%	

* FY 2019 target allocation based on the strategic asset allocation dated 10/1/2018.

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of the TRS net pension liability calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	$ 32,181,883	$ 20,936,137	$ 11,824,911

Change of Assumptions since the Prior Measurement Date

- 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 SB3 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 based on the actuarial assumptions.

Change of Benefit Terms since the Prior Measurement Date

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

D. Defined Other Postemployment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

Detailed 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.texas.gov/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees of TRS 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.

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

TRS-Care Monthly Plan 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

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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act.

Rates for such plan fiscal years are as follows:

	Contribution Rates	
	2020	2019
Active employee	0.65%	0.65%
Non-employer contribution entity (State)	1.25%	1.25%
Employers (District)	0.75%	0.75%
Federal/private funding*	1.25%	1.25%

*Contributions paid from federal funds and private grants are remitted by the employer (District) and paid at the State rate.

The contribution amounts for the District's fiscal year 2020 are as follows:

District contributions	$	392,913
Member contributions		302,034
NECE on-behalf contributions (State)		342,658

In addition, the State of Texas contributed $199,268, $161,327, and $124,727 in 2020, 2019, and 2018, respectively, for on-behalf payments for Medicare Part D.

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 a supplemental appropriation from the State of Texas as the Non-Employer Contributing Entity in the amount of $73.6 million in fiscal year 2019.

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

At August 31, 2020, the District reported a liability of $24,299,982 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District are as follows:

District's proportionate share of the net OPEB liability	$ 24,299,982
State's proportionate share of the net OPEB liability associated with the District	32,289,236
Total	$ 56,589,218

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

At the measurement date of August 31, 2019, the employer's proportion of the collective net OPEB liability was 0.0513837%, which was an increase of 0.0007952% from its proportion measured as of August 31, 2018.

For the fiscal year ended August 31, 2020, the District recognized OPEB expense of $1,581,230 and revenue of $851,012 for support provided by the State.

At August 31, 2020, the District reported 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 experience	$ 1,192,120	$ 3,976,434
Changes of assumptions	1,349,674	6,536,098
Difference between projected and actual earnings on OPEB plan investments	2,622	-
Changes in proportion and difference between District's contributions and the proportionate share of contributions	566,185	-
District contributions paid subsequent to the measurement date	392,913	-
Totals	$ 3,503,514	$ 10,512,532

$392,913 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (income) as follows:

Year Ending August 31,	
2021	$ (1,268,073)
2022	(1,268,073)
2023	(1,268,922)
2024	(1,269,407)
2025	(1,269,274)
Thereafter	(1,058,182)
Total	$ (7,401,931)

Actuarial Methods and Assumptions

The actuarial valuation of the total OPEB liability was performed as of August 31, 2018. Update procedures were used to roll forward the total OPEB liability to August 31, 2019.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The following assumptions used for the valuation of the TRS-Care OPEB liability are identical to the assumptions employed in the August 31, 2019 TRS annual pension actuarial valuation:

Demographic Assumptions	Economic Assumptions
Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Salary increases
Rates of disability	

See Note 4.C for detail on these assumptions. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The initial medical trend rates were 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. There was an initial prescription drug trend rate of 10.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.50 % over a period of 13 years.

The following methods and additional assumptions were used in the TRS-Care OPEB valuation:

Actuarial cost method	Individual entry age normal
Single discount rate	2.63%
Aging factors	Based on plan specific experience
Election rates	Normal retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Ad hoc postemployment benefit changes	None

The impact of the Cadillac Tax that is returning in fiscal year 2023 has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

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

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

Discount Rate
A single discount rate of 2.63% was used to measure the total OPEB liability at August 31, 2019. This was a decrease of 1.06% in the discount rate since the August 31, 2018 measurement date. The plan is essentially a “pay-as-you-go” plan, and based on the assumption that contributions are made at the statutorily required rates, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments to current members and therefore, the single discount rate is equal to the prevailing municipal bond rate. The source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index”.

Sensitivity Analysis of Rates

Discount Rate

The following table presents the District's proportionate share of the TRS-Care net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the net OPEB liability.

	1% Decrease (1.63%)	Current Discount Rate (2.63%)	1% Increase (3.63%)
District's proportionate share of the net OPEB liability	$ 29,337,872	$ 24,299,982	$ 20,358,831

Healthcare Cost Trend Rates

The following table presents the District's proportionate share of net OPEB liability using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed health-care cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 19,823,070	$ 24,299,982	$ 30,296,980

Change of Assumptions since the Prior Measurement Date

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

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the total OPEB liability.
- 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 total OPEB liability.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the total OPEB liability.
- 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 total OPEB liability.

Change of Benefit Terms since the Prior Measurement Date

There were no changes in benefit terms since the prior measurement date.

E. Nonmonetary Transactions

During 2020, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $26,446. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of $26,446 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

F. Prior Period Adjustment

Net position and fund balances at August 31, 2019 were restated per the following table:

	Governmental Activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds
Beginning net position / fund balance, as originally reported	$ 39,473,658	$ 35,507,876	$ 7,162,323	$ 3,534,005
Correct beginning balance - construction in progress	(398,310)	-	-	-
Correct beginning balance - buildings and improvements	(562,678)	-	-	-
Correct beginning balance - furniture and equipment	(2,869,801)	-	-	-
Correct beginning balance - accumulated depreciation	1,705,626	-	-	-
Record accumulated accretion for capital appreciation bonds	(3,147,508)	-	-	-
Adjust for overstatement of state revenue	(1,693,559)	(1,693,559)	-	-
Adjust for prepaid insurance	235,151	235,151	-	-
Combination of nonmajor special revenue fund, that did not meet the definition of a special revenue fund.	-	3,953,728	(3,953,728)	-
Correct unsupported accounts payable balance	168,420	-	-	168,420
Record an IBNR for self-funded health insurance	(190,614)	-	-	(190,614)
Correct unsupported accounts receivable	(234,962)	-	-	(234,962)
Record IBNR accural for workers' compensation	(162,072)	-	-	(162,072)
Beginning net position / fund balance, as restated	$ 32,323,351	$ 38,003,196	$ 3,208,595	$ 3,114,777

G. Subsequent Event

COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (‘COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected public education, workforces, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations. It is not possible for management to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the District’s operations and financial results at this time.

Debt Issuance

In November 2020, the District’s bond election for $100,150,000 was approved for school buildings and improvements.

Required Supplementary Information

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Willis Independent School District **Exhibit G-1**

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual
General Fund
For the Fiscal Year Ended August 31, 2020

Data Control Codes		1 Budgeted Amounts Original	2 Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 38,832,589	$ 38,832,589	$ 38,448,651	$ (383,938)
5800	State program revenues	24,879,716	24,879,716	30,073,481	5,193,765
5900	Federal program revenues	80,292	80,292	866,580	786,288
5020	Total revenues	63,792,597	63,792,597	69,388,712	5,596,115
	EXPENDITURES				
	Current:				
0011	Instruction	36,388,084	36,465,224	35,240,846	1,224,378
0012	Instructional resources and media services	171,909	186,909	160,811	26,098
0013	Curriculum and instructional staff development	1,195,875	1,195,875	1,090,778	105,097
0021	Instructional leadership	182,181	187,181	181,514	5,667
0023	School leadership	4,382,037	4,407,037	4,266,840	140,197
0031	Guidance, counseling, and evaluation services	2,129,474	2,129,474	2,124,601	4,873
0032	Social work services	212,951	212,951	176,867	36,084
0033	Health services	650,829	675,829	673,934	1,895
0034	Student transportation	3,684,986	4,186,861	3,688,255	498,606
0036	Extracurricular activities	1,963,925	1,963,925	1,656,805	307,120
0041	General administration	2,184,577	2,184,577	1,919,726	264,851
0051	Plant maintenance and operations	8,830,704	8,709,704	7,763,283	946,421
0052	Security and monitoring services	750,493	750,493	705,666	44,827
0053	Data processing services	492,572	492,572	443,149	49,423
	Capial outlay:				
0081	Facilities acquisition and construction	-	12,965,917	9,447,913	3,518,004
	Intergovernmental charges:				
0095	Payments to juvenile justice alternative education programs	12,000	12,000	2,635	9,365
0099	Other intergovernmental charges	560,000	560,000	442,145	117,855
6030	Total expenditures	63,792,597	77,286,529	69,985,768	7,300,761
1200	Net change in fund balance	-	(13,493,932)	(597,056)	12,896,876
0100	Fund balance - beginning	35,507,876	35,507,876	35,507,876	-
1300	Prior period adjustment	-	-	2,495,320	2,495,320
	Fund balance - beginning, as restated	35,507,876	35,507,876	38,003,196	2,495,320
3000	**FUND BALANCE - ENDING**	$ 35,507,876	$ 22,013,944	$ 37,406,140	$ 15,392,196

The Notes to the Required Supplementary Information are an integral part of this schedule.

Willis Independent School District

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Six Fiscal Years*

	2020
District's proportion of the net pension liability	0.0402749%
District's proportionate share of the net pension liability	$ 20,936,137
State's proportionate share of the net pension liability associated with the District	29,856,517
TOTALS	$ 50,792,654
District's covered payroll	$ 43,699,281
District's proportionate share of the net pension liability as a percentage of its covered payroll	47.91%
Plan fiduciary net position as a percentage of the total pension liability	75.24%

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Exhibit G-2

2019	2018	2017	2016	2015
0.0392693%	0.0390052%	0.0361980%	0.0378963%	0.0244667%
$ 21,614,753	$ 12,471,763	$ 13,678,697	$ 13,395,838	$ 6,535,394
32,061,491	18,887,011	22,386,698	21,163,850	18,665,631
$ 53,676,244	$ 31,358,774	$ 36,065,395	$ 34,559,688	$ 25,201,025
$ 41,678,787	$ 39,972,432	$ 37,322,171	$ 35,786,146	$ 34,840,688
51.86%	31.20%	36.65%	37.43%	18.76%
73.74%	82.17%	78.00%	78.43%	83.25%

Willis Independent School District

Schedule of the District's Contributions to the
Teacher Retirement System of Texas Pension Plan
For the Last Six Fiscal Years*

	2020
Contractually required contributions	$ 1,501,458
Contributions in relation to the contractually required contributions	(1,501,458)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -
District's covered payroll	$ 46,456,111
Contributions as a percentage of covered payroll	3.23%

*The amounts presented for the fiscal years were determined as of the District's fiscal year end. Ten years of data not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Exhibit G-3

2019	2018	2017	2016	2015
$ 1,408,633	$ 1,322,974	$ 1,278,273	$ 1,150,103	$ 897,108
(1,408,633)	(1,322,974)	(1,278,273)	(1,150,103)	(897,108)
$ -	$ -	$ -	$ -	$ -
$ 43,699,281	$ 41,678,787	$ 39,972,432	$ 37,322,171	$ 35,786,146
3.22%	3.17%	3.20%	3.08%	2.51%

Willis Independent School District **Exhibit G-4**

Schedule of the District's Proportionate Share of the Net OPEB
Liability of a Cost-Sharing Multiple-Employer OPEB Plan
Teacher Retirement System of Texas
For the Last Three Fiscal Years*

	2020	2019	2018
District's proportion of the net OPEB liability	0.0513837%	0.0505885%	0.0503240%
District's proportionate share of the net OPEB liability	$ 24,299,982	$ 25,259,276	$ 21,884,017
State's proportionate share of the net OPEB liability associated with the District	32,289,236	35,134,208	29,772,356
TOTALS	$ 56,589,218	$ 60,393,484	$ 51,656,373
District's covered payroll	$ 43,699,281	$ 41,678,787	$ 39,972,432
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	55.61%	60.60%	54.75%
Plan fiduciary net position as a percentage of the total OPEB liability	2.66%	1.57%	0.91%

* The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, August 31 of the prior year.
Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Willis Independent School District **Exhibit G-5**

Schedule of the District's Contributions to the
Teacher Retirement System of Texas OPEB Plan
For the Last Three Fiscal Years*

	2020	2019	2018
Contractually required contributions	$ 392,913	$ 364,521	$ 349,034
Contributions in relation to the contractually required contributions	(392,913)	(364,521)	(349,034)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -	$ -	$ -
District's covered payroll	$ 46,456,111	$ 43,669,281	$ 41,678,787
Contributions as a percentage of covered payroll	0.85%	0.83%	0.84%

*The amounts presented for the fiscal year were determined as of the District's fiscal year end August 31.
Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

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Note 1. Budget

A. Budgetary Information

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

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

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

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2020, the District did not exceed appropriations in the functions (the legal level of budgetary control).

Note 2. Net Pension Liability and Net OPEB Liability

The following factors significantly affect trends in the amounts reported for the District's proportionate share of the net pension liability and net OPEB liability:

Changes in Actuarial Assumptions and Inputs

	Net Pension Liability		Net OPEB Liability
Measurement Date August 31,	Discount Rate	Long-term Expected Rate of Return	Discount Rate
2019	7.250%	7.250%	2.630%
2018	6.907%	7.250%	3.690%
2017	8.000%	8.000%	3.420%
2016	8.000%	8.000%	
2015	8.000%	8.000%	
2014	8.000%	8.000%	

Changes in Demographic and Economic Assumptions

For measurement dates August 31, 2019 and 2014-2017 – No changes in assumptions.

For measurement date August 31, 2018 – Net Pension Liability and Net OPEB Liability:

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

Supplementary Information

Willis Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds
August 31, 2020

Data Control Codes		211 Title I Part A Improving Basic Programs	224 IDEA - Part B, Formula	225 IDEA - Part B, Preschool
	ASSETS			
1110	Cash and cash equivalents	$ -	$ -	$ -
1120	Current investments	-	-	-
1240	Due from other governments	396,981	69,564	4,034
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
1000	**TOTAL ASSETS**	$ 396,981	$ 69,564	$ 4,034
	LIABILITIES			
2110	Accounts payable	$ 57,116	$ -	$ -
2160	Accrued wages payable	-	-	-
2170	Due to other funds	339,567	69,564	4,034
2200	Accrued liabilities	298	-	-
2000	Total liabilities	396,981	69,564	4,034
	FUND BALANCES			
3450	Restricted - grant funds	-	-	-
3545	Committed - other	-	-	-
3000	Total fund balances	-	-	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 396,981	$ 69,564	$ 4,034

240 National School Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESSA, Title II, Part A,: Teacher and Principal Training and Recruiting	263 Title III, Part A, English Language Acquisition and Enhancement
$ 130,268	$ -	$ -	$ -
505,843	-	-	-
16,342	10,492	57,001	12,798
298,509	-	-	-
-	-	-	-
$ 950,962	$ 10,492	$ 57,001	$ 12,798
$ 41,416	$ 2,581	$ 1,300	$ -
150,769	-	-	-
34,116	7,911	55,701	12,798
-	-	-	-
226,301	10,492	57,001	12,798
724,661	-	-	-
-	-	-	-
724,661	-	-	-
$ 950,962	$ 10,492	$ 57,001	$ 12,798

Willis Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds – Continued
August 31, 2020

Data Control Codes		266 Elementary and Secondary School Emergency Relief Funds	272 MAC Program	276 School Improvement Grants
	ASSETS			
1110	Cash and cash equivalents	$ -	$ 128,973	$ -
1120	Current investments	-	-	-
1240	Due from other governments	1,003,993	-	23,894
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
1000	**TOTAL ASSETS**	$ 1,003,993	$ 128,973	$ 23,894
	LIABILITIES			
2110	Accounts payable	$ -	$ -	$ 23,894
2160	Accrued wages payable	-	-	-
2170	Due to other funds	1,003,993	-	-
2200	Accrued liabilities	-	-	-
2000	Total liabilities	1,003,993	-	23,894
	FUND BALANCES			
3450	Restricted - grant funds	-	128,973	-
3545	Committed - other	-	-	-
3000	Total fund balances	-	128,973	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 1,003,993	$ 128,973	$ 23,894

280	288	289	385
SHARS	Teaching American History Grant	Improving Academic Achievement (Summer School LEP)	Supplemental Visually Impaired
$ -	$ 8,270	$ -	$ -
-	-	-	-
-	-	12,862	-
-	-	-	-
-	-	-	3,000
$ -	$ 8,270	$ 12,862	$ 3,000
$ -	$ -	$ 7,479	$ -
-	-	-	-
-	-	5,383	2,730
-	-	-	-
-	-	12,862	2,730
-	8,270	-	270
-	-	-	-
-	8,270	-	270
$ -	$ 8,270	$ 12,862	$ 3,000

Willis Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds – Continued
August 31, 2020

Data Control Codes		392 Noneducational Community - Based Support	393 Texas Successful Schools	397 Advanced Placement Incentives
	ASSETS			
1110	Cash and cash equivalents	$ -	$ 725	$ 7,321
1120	Current investments	-	-	-
1240	Due from other governments	28	-	-
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
1000	**TOTAL ASSETS**	$ 28	$ 725	$ 7,321
	LIABILITIES			
2110	Accounts payable	$ -	$ -	$ -
2160	Accrued wages payable	-	-	-
2170	Due to other funds	28	-	-
2200	Accrued liabilities	-	-	-
2000	Total liabilities	28	-	-
	FUND BALANCES			
3450	Restricted - grant funds	-	725	7,321
3545	Committed - other	-	-	-
3000	Total fund balances	-	725	7,321
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 28	$ 725	$ 7,321

410	427	428	429	461	
State Textbook Fund	**State Funded Special Revenue Funds**	**School Safety and Security**	**Prekindergarten Grant Program**	**Campus Activity Funds**	**Total Nonmajor Funds (See Exhibit C-1)**
$ 254,768	$ -	$ 51,010	$ 2,143	$ 683,272	$ 1,266,750
-	-	-	-	-	505,843
-	120,456	-	-	-	1,728,445
-	-	-	1,009	-	299,518
-	-	-	-	-	3,000
$ 254,768	$ 120,456	$ 51,010	$ 3,152	$ 683,272	$ 3,803,556
$ 196,220	$ 82,280	$ -	$ -	$ 30,064	$ 442,350
-	-	-	-	-	150,769
-	38,176	-	-	-	1,574,001
-	-	-	-	-	298
196,220	120,456	-	-	30,064	2,167,418
58,548	-	51,010	3,152	-	982,930
-	-	-	-	653,208	653,208
58,548	-	51,010	3,152	653,208	1,636,138
$ 254,768	$ 120,456	$ 51,010	$ 3,152	$ 683,272	$ 3,803,556

Willis Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds
For the Fiscal Year Ended August 31, 2020

Data Control Codes		211 Title I Part A Improving Basic Programs	224 IDEA - Part B, Formula	225 IDEA - Part B, Preschool
	REVENUES			
5700	Local and intermediate sources	$ -	$ -	$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	1,354,481	1,309,523	23,253
5020	Total revenues	1,354,481	1,309,523	23,253
	EXPENDITURES			
	Current:			
0011	Instruction	1,002,765	1,053,316	23,253
0013	Curriculum and instructional staff development	331,857	-	-
0021	Instructional leadership	-	38,465	-
0023	School leadership	19,588	-	-
0031	Guidance, counseling, and evaluation services	-	217,472	-
0033	Health services	-	-	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0051	Plant maintenance and operations	-	-	-
0061	Community services	271	270	-
6030	Total expenditures	1,354,481	1,309,523	23,253
1200	Net change in fund balances	-	-	-
0100	Fund balances - beginning	-	-	-
1300	Prior period adjustment	-	-	-
	Fund balances - beginning, as restated	-	-	-
3000	**FUND BALANCES - ENDING**	$ -	$ -	$ -

240	244	255	263
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESSA, Title II, Part A,: Teacher and Principal Training and Recruiting	Title III, Part A, English Language Acquisition and Enhancement
$ 816,790	$ -	$ -	$ -
20,552	-	-	-
2,601,794	96,864	192,881	68,481
3,439,136	96,864	192,881	68,481
-	92,701	310	52,285
-	4,163	188,171	14,813
-	-	-	-
-	-	4,400	1,383
-	-	-	-
-	-	-	-
4,011,398	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
4,011,398	96,864	192,881	68,481
(572,262)	-	-	-
1,296,923	-	-	-
-	-	-	-
1,296,923	-	-	-
$ 724,661	$ -	$ -	$ -

Willis Independent School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds – Continued
For the Fiscal Year Ended August 31, 2020

Data Control Codes		266 Elementary and Secondary School Emergency Relief Funds	272 MAC Program	276 School Improvement Grants
	REVENUES			
5700	Local and intermediate sources	$ -	$ -	$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	1,003,993	33,279	23,894
5020	Total revenues	1,003,993	33,279	23,894
	EXPENDITURES			
	Current:			
0011	Instruction	1,003,993	-	23,894
0013	Curriculum and instructional staff development	-	-	-
0021	Instructional leadership	-	-	-
0023	School leadership	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	-
0033	Health services	-	1,382	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0051	Plant maintenance and operations	-	-	-
0061	Community services	-	-	-
6030	Total expenditures	1,003,993	1,382	23,894
1200	Net change in fund balances	-	31,897	-
0100	Fund balances - beginning	-	97,076	-
1300	Prior period adjustment	-	-	-
		-	97,076	-
3000	**FUND BALANCES - ENDING**	$ -	$ 128,973	$ -

280	288	289	385
SHARS	Teaching American History Grant	Improving Academic Achievement (Summer School LEP)	Supplemental Visually Impaired
$ -	$ -	$ -	$ -
-	-	-	3,000
-	-	104,658	-
-	-	104,658	3,000
-	-	50,246	3,000
-	-	54,412	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	104,658	3,000
-	-	-	-
3,953,728	8,270	-	270
(3,953,728)	-	-	-
-	8,270	-	270
$ -	$ 8,270	$ -	$ 270

Willis Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds – Continued
For the Fiscal Year Ended August 31, 2020

Data Control Codes		392 Noneducational Community - Based Support	393 Texas Successful Schools	397 Advanced Placement Incentives
	REVENUES			
5700	Local and intermediate sources	$ -	$ -	$ -
5800	State program revenues	-	-	219
5900	Federal program revenues	-	-	-
5020	Total revenues	-	-	219
	EXPENDITURES			
	Current:			
0011	Instruction	-	-	-
0013	Curriculum and instructional staff development	-	-	-
0021	Instructional leadership	-	-	-
0023	School leadership	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	-
0033	Health services	-	-	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0051	Plant maintenance and operations	-	-	-
0061	Community services	-	-	-
6030	Total expenditures	-	-	-
1200	Net change in fund balances	-	-	219
0100	Fund balances - beginning	-	725	7,102
1300	Prior period adjustment	-	-	-
		-	725	7,102
3000	**FUND BALANCES - ENDING**	$ -	$ 725	$ 7,321

	410	427	428	429	461	
	State Textbook Fund	**State Funded Special Revenue Funds**	**School Safety and Security**	**Prekindergarten Grant Program**	**Campus Activity Funds**	**Total Nonmajor Funds (See Exhibit C-2)**
	$ -	$ -	$ -	$ -	$ 702,641	$ 1,519,431
	817,268	120,456	65,000	-	-	1,026,495
	-	-	-	-	-	6,813,101
	817,268	120,456	65,000	-	702,641	9,359,027
	1,749,314	-	11,250	-	64,376	5,130,703
	76,798	-	-	-	339	670,553
	-	-	-	-	-	38,465
	-	-	-	-	530	25,901
	-	-	2,740	-	619	220,831
	-	-	-	-	-	1,382
	-	-	-	-	-	4,011,398
	-	-	-	-	711,254	711,254
	-	120,456	-	-	-	120,456
	-	-	-	-	-	541
	1,826,112	120,456	13,990	-	777,118	10,931,484
	(1,008,844)	-	51,010	-	(74,477)	(1,572,457)
	1,067,392	-	-	3,152	727,685	7,162,323
	-	-	-	-	-	(3,953,728)
	1,067,392	-	-	3,152	727,685	3,208,595
	$ 58,548	$ -	$ 51,010	$ 3,152	$ 653,208	$ 1,636,138

Willis Independent School District **Exhibit I-1**

Combining Statement of Net Position
Nonmajor Enterprise Fund
August 31, 2020

Data Control Codes		753 Health Insurance Fund	755 Workers' Compensation Fund	Total Internal Service Funds (See Exhibit D-1)
	ASSETS			
	Current assets:			
1110	Cash and cash equivalents	$ 270,699	$ 956,333	$ 1,227,032
1120	Current investments	2,074,257	-	2,074,257
1260	Due from other funds	581,312	569,477	1,150,789
	Total current assets	2,926,268	1,525,810	4,452,078
1000	Total assets	2,926,268	1,525,810	4,452,078
	LIABILITIES			
	Current liabilities:			
2110	Accounts payable	362,237	3,163	365,400
2200	Accrued liabilities	412,006	76,410	488,416
	Total current liabilities	774,243	79,573	853,816
2000	Total liabilities	774,243	79,573	853,816
	NET POSITION			
3900	Unrestricted	2,152,025	1,446,237	3,598,262
3000	**TOTAL NET POSITION**	$ 2,152,025	$ 1,446,237	$ 3,598,262

Willis Independent School District **Exhibit I-2**

Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Fund
For the Fiscal Year Ended August 31, 2020

Data Control Codes		753 Health Insurance Fund	755 Workers' Compensation Fund	Total Internal Service Funds (See Exhibit D-2)
	OPERATING REVENUES			
5700	Contributions from employer	$ 6,028,007	$ 1,172,235	$ 7,200,242
5020	Total operating revenues	6,028,007	1,172,235	7,200,242
	OPERATING EXPENSES:			
6200	Professional and contracted services	593,048	-	593,048
6300	Supplies and materials	15,859	-	15,859
6400	Claims expense, net of provision adjustments	6,074,533	71,994	6,146,527
6030	Total operating expenses	6,683,440	71,994	6,755,434
1100	Operating income	(655,433)	1,100,241	444,808
	NONOPERATING REVENUES (EXPENSES)			
7955	Earnings from temp. deposits and investments	38,677	-	38,677
7950	Total nonoperating revenues (expenses)	38,677	-	38,677
1300	Change in net position	(616,756)	1,100,241	483,485
0100	Net position - beginning	3,025,937	508,068	3,534,005
	Prior period adjustment	(257,156)	(162,072)	(419,228)
	Net position - beginning, as restated	2,768,781	345,996	3,114,777
3300	**NET POSITION - ENDING**	$ 2,152,025	$ 1,446,237	$ 3,598,262

Willis Independent School District **Exhibit I-3**

Combining Statement of Cash Flows
Nonmajor Enterprise Fund
For the Fiscal Year Ended August 31, 2020

	753 Health Insurance Fund	755 Workers' Compensation Fund	Total Internal Service Funds (See Exhibit D-3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	$ 5,524,445	$ 636,874	$ 6,161,319
Cash payments for other operating expenses	(6,096,240)	(154,493)	(6,250,733)
Net cash provided by (used for) operating activities	(571,795)	482,381	(89,414)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	38,677	-	38,677
Sale of investments	777,726	-	777,726
Net cash provided by (used for) investing activities	816,403	-	816,403
Net increase (decrease) in cash and cash equivalents	244,608	482,381	726,989
Cash and cash equivalents at the beginning of the year	26,091	473,952	500,043
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 270,699	$ 956,333	$ 1,227,032
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	$ (655,433)	$ 1,100,241	$ 444,808
Effect of increases and decreases in current assets and liabilities:			
(Increase) decrease in due from other funds	117,236	(535,361)	(418,125)
Increase (decrease) in accounts payable	365,808	3,163	368,971
Increase (decrease) in due to other funds	(620,798)	-	(620,798)
Increase (decrease) in accrued liabilities	221,392	(85,662)	135,730
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (571,795)	$ 482,381	$ (89,414)

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Willis Independent School District
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended August 31, 2020

	1	2	3
	Tax Rates		Assessed / Appraised Value For School
Year Ended August 31,	Maintenance	Debt Service	Tax Purposes
2011 and prior years	$ Various	$ Various	$ Various
2012	1.04000	0.330000	2,081,955,401
2013	1.04000	0.330000	2,262,200,949
2014	1.04000	0.350000	2,364,654,317
2015	1.04000	0.350000	2,539,472,571
2016	1.04000	0.350000	2,709,205,759
2017	1.04000	0.350000	3,045,105,911
2018	1.04000	0.350000	3,326,908,645
2019	1.04000	0.320000	3,549,280,648
2020	0.97000	0.300000	3,865,101,417
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 9/1/19	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/20
$ 319,594	$ -	$ 9,639	$ 3,059	$ (71,934)	$ 234,962
65,088	-	2,492	791	(611)	61,194
75,994	-	4,643	1,473	(645)	69,233
86,011	-	6,140	2,066	(650)	77,155
109,449	-	16,110	5,421	364	88,282
126,982	-	23,116	7,779	13,242	109,329
171,944	-	32,084	10,798	17,066	146,128
351,084	-	(13,288)	(4,472)	(126,983)	241,861
777,618	-	225,387	69,350	(115,708)	367,173
-	49,086,788	36,918,139	11,417,981	-	750,668
$ 2,083,764	$ 49,086,788	$ 37,224,462	$ 11,514,246	$ (285,859)	$ 2,145,985
		$ -	$ -		

Willis Independent School District **Exhibit J-2**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
National School Breakfast and Lunch Program
For the Fiscal Year Ended August 31, 2020

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 1,178,606	$ 1,178,606	$ 816,790	$ (361,816)
5800	State program revenues	-	-	20,552	20,552
5900	Federal program revenues	3,611,229	3,611,229	2,601,794	(1,009,435)
5020	Total revenues	4,789,835	4,789,835	3,439,136	(1,350,699)
	EXPENDITURES				
	Current:				
0035	Food services	4,669,835	4,669,835	4,011,398	658,437
0051	Plant maintenance and operations	120,000	120,000	-	120,000
6030	Total expenditures	4,789,835	4,789,835	4,011,398	778,437
1200	Net change in fund balance	-	-	(572,262)	(572,262)
0100	Fund balance - beginning	1,296,923	1,296,923	1,296,923	-
3000	**FUND BALANCE - ENDING**	$ 1,296,923	$ 1,296,923	$ 724,661	$ (572,262)

Willis Independent School District **Exhibit J-3**

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended August 31, 2020

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 11,764,951	$ 11,764,951	$ 11,644,634	$ (120,317)
5800	State program revenues	-	-	205,032	205,032
5020	Total revenues	11,764,951	11,764,951	11,849,666	84,715
	EXPENDITURES				
	Debt service:				
0071	Principal on long-term debt	4,068,995	4,068,995	4,068,995	-
0072	Interest on long-term debt	7,650,956	7,585,317	7,585,317	-
0073	Issuance costs and fees	45,000	237,504	193,783	43,721
6030	Total expenditures	11,764,951	11,891,816	11,848,095	43,721
1100	Excess (deficiency) of revenues over (under) expenditures	-	(126,865)	1,571	128,436
	OTHER FINANCING SOURCES (USES)				
7901	Issuance of refunding bond	-	7,610,000	7,610,000	-
7916	Premium or discount on issuance of bonds	-	898,405	898,405	-
8940	Payment to bond refunding escrow agent	-	(8,381,540)	(8,381,540)	-
7080	Total other financing sources (uses)	-	126,865	126,865	-
1200	Net change in fund balance	-	-	128,436	128,436
0100	Fund balance - beginning	3,684,612	3,684,612	3,684,612	-
3000	**FUND BALANCE - ENDING**	$ 3,684,612	$ 3,684,612	$ 3,813,048	$ 128,436

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Overall Compliance, Internal Control Section and Federal Awards

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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*

To the Board of Trustees of
Willis Independent School District
Willis, Texas

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Willis Independent School District (the District) as of and for the fiscal year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 26, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control, that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2020-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2020-002 that we consider to be a significant deficiency.

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
Main: 936.756.8127

The Board of Trustees of
Willis Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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.*

District's Response to Finding

The District's response to the findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 26, 2021

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Assurance • Tax • Advisory

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees of
Willis Independent School District
Willis, Texas

Report on Compliance for Each Major Federal Program

We have audited Willis Independent School District's (the District) 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 District's major federal programs for the fiscal year ended August 31, 2020. The 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 the 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 (CFR) 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 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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 fiscal year ended August 31, 2020.

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
Main: 936.756.8127
CPAs AND ADVISORS | WEAVER.COM

The Board of Trustees of
Willis Independent School District

Report on Internal Control over Compliance

Management of the 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 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 District's internal control over compliance.

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 26, 2021

Willis Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended August 31, 2020

Section 1. Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes, 2020-001
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes, 2020-002
3. Noncompliance material to financial statements noted?	No

Federal Awards

4. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditor's report issued on compliance with major programs	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

7. Identification of major programs:
a) 84.010 – Title I, Part A
b) 84.425D –COVID-19 - Elementary and Secondary School Emergency Relief Fund

8. Dollar threshold used to distinguish between Type A and Type B federal programs	$750,000
9. Auditee qualified as a low-risk auditee?	Yes

Section 2. Financial Statement Findings

Finding 2020-001: Prior Period Adjustments
Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria
Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition
During our audit procedures for fiscal year 2020, we identified a number of misstatements affecting the DIstrict's fiscal year 2019 financial statements. These misstatements affected the opening balances of financial assets and liabilities in fiscal year 2020. If not corrected, they would have led to misstatements of the ending balances of financial assets and liabilities as of August 31, 2020. Management has corrected these misstatements as prior period adjustments to beginning net position and fund balance, as applicable.

Cause
Because these significant errors were not prevented, or detected and corrected on a timely basis, during the period to which they relate, there is an indication of a deficiency in internal control over financial reporting related to the financial statement closing process, which affected the prior year.

Effect or Potential Effect
Failure to adhere to effective closing procedures may allow possible misstatements to exist and continue without notice, and such misstatements could be material. The net effect of the 2020 misstatements on beginning net position and fund balance at August 31, 2019 are as follows:

Opinion Unit	Beginning Net Position / Fund Balance	Prior Period Adjustment	Ending Net Position/ Fund Balance
Governmental Activities	$ 39,473,658	$ 7,150,307	$ 32,323,351
General Fund	35,507,876	2,495,320	38,003,196
Nonmajor Governmental Funds	7,162,323	3,953,728	3,208,595
Internal Service Funds	3,534,005	419,228	3,114,777

Recommendation
We recommend that the District review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period, and reconcile and review all balance sheet accounts.

Views of Responsible Official(s) and Planned Corrective Actions
See corrective action plan

Finding 2020-002: Financial Statement Adjustments
Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria
Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a misstatement of an entity's financial statements is an indication of a weakness in internal control.

Condition
The financial information for the year ended August 31, 2020 included errors that were identified and corrected during our audit. Specific issues related to cut-off of expenditures/expenses, lack of balance sheet reconciliations review, and discrepancies between the accounting records and supporting documents.

Cause
Because these errors were not detected prior to the information being provided for audit, there is an indication that closing procedures, specifically the monitoring and review of financial information, are not being effectively performed.

Effect or Potential Effect
Misstatements of the District's financial statements were not prevented, or detected and corrected, by the District's system of internal control, requiring numerous audit adjustments to correct the misstatements identified during the audit. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

Recommendation
We recommend the District establish effective monitoring and closing policies and procedures as a customary part of the accounting process, including a requirement that all of the balance sheet accounts be reconciled to supporting statements and schedules.

Views of Responsible Official(s) and Planned Corrective Actions
See corrective action plan

Section 3. Federal Award Findings and Questioned Costs

None reported

Willis Independent School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended August 31, 2020

Prior Year Findings

None reported

Willis ISD Business Office
Garrett Matej
Asst. Superintendent Business & Finance
612 N Campbell St, Willis, TX, 77378
Phone 936.856.1311 Fax 936.856.4042

Current Year Findings

Finding 2020-001 Material Weakness in Internal Control over Financial Reporting – Prior Period Adjustments

Corrective Action Plan

During the period under audit, the District changed audit firms as well as had a change in management within the business and finance department. These changes lead to certain prior year misstatements being identified and corrected by management ultimately resulting in a restatement of beginning net position and fund balance. This being the case, the District will incorporate improvements in the process of selecting an independent audit firm to ensure they meet the appropriate standards of quality and accuracy. Additionally, the District will review and implement improvements to the existing internal controls over financial reporting to ensure, to the best of our knowledge based on the information and resources available, the financial statement are free of material misstatements.

Person(s) Responsible

Assistant Superintendent for Business and Finance

Anticipated Completion Date

Prior to August 31, 2021

Willis ISD Business Office
Garrett Matej
Asst. Superintendent Business & Finance
612 N Campbell St, Willis, TX, 77378
Phone 936.856.1311 Fax 936.856.4042

Current Year Findings

Finding 2020-002 Significant Deficiency in Internal Control over Financial Reporting – Financial Statement Adjustments

Corrective Action Plan

The District will review and improve, as necessary, the internal controls over the financial closing and reporting process. The District will improve current internal controls by utilizing existing software to monitor and ensure proper review is being performed on a timely basis. These improvements will allow the District to detect potential errors and ensure that, to the best of our knowledge based on the information and resources available, the financial statements remain clear and free of material misstatement.

Person(s) Responsible

Assistant Superintendent for Business and Finance

Anticipated Completion Date

Prior to August 31, 2021

Willis Independent School District **Exhibit K-1**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2020

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed Through Texas Education Agency - Cash Assistance:			
National School Breakfast Program	10.553	71402001	$ 608,636
COVID-19 - National School Breakfast Program	10.553	71402001	91,872
National School Lunch Program	10.555	71302001	1,469,907
COVID-19 - National School Lunch Program	10.555	71302001	146,160
Passed Through Texas Department of Agriculture - Non-Cash Assistance:			
National School Lunch Program	10.555	806780706	285,219
Total Child Nutrition Cluster			2,601,794
Forest Service Schools and Roads Cluster:			
Passed Through Montgomery County, Texas:			
Schools and Roads - Grant to States (Mineral Funds)	10.665	026051276	2,550
Passed Through San Jacinto County, Texas:			
Schools and Roads - Grant to States (Mineral Funds)	10.665	067899708	148
Total Forest Service Schools and Roads Cluster			2,698
TOTAL U.S. DEPARTMENT OF AGRICULTURE			2,604,492
U.S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency:			
ESSA Title I, Part A - Improving Basic Programs	84.010A	20610101170904	1,354,481
Special Education Cluster (IDEA):			
IDEA - Part B, Formula	84.027A	206600011709046000	1,309,523
IDEA - Part B, Preschool	84.173A	206610011709046000	23,253
Total Special Education Cluster (IDEA)			1,332,776
Career and Technology - Basic Grant	84.048A	204200287110100	96,864
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	20671001170904	68,481
ESSA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	20694501170904	192,881
Summer School LEP	84.369A	69551902	4,007
Title IV, Part A, Subpart 1	84.424A	20680101170904	100,651
Instruction Continuity	84.377	17610740170904	23,894
COVID-19 - Elementary and Secondary School Emergency Relief Fund	84.425D	20521001170904	1,003,993
TOTAL U.S. DEPARTMENT OF EDUCATION			4,178,028
U.S. DEPARTMENT OF INTERIOR			
Passed Through Montgomery County, Texas:			
National Forest Acquired Lands - (ONRR Funds)	15.438	026051276	1,116
Passed Through San Jacinto County, Texas:			
National Forest Acquired Lands - (ONRR Funds)	15.438	067899708	983
TOTAL U.S. DEPARTMENT OF INTERIOR			2,099
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid Cluster:			
Passed Through Texas Health and Human Services Commission			
Medicaid Administrative Claiming (MAC)	93.600	529-07-0157-00067	33,279
Total Medicaid Cluster			33,279
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			33,279
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 6,817,898

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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Note 1. Basis of Presentation

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

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

The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

Note 2. Reconciliation to the Basic Financial Statements

Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	6,817,898
General fund - federal revenue:	
School Health and Related Services	789,530
JROTC	72,253
Total federal revenues per Exhibit C-2	$ 7,679,681

Willis Independent School District **Exhibit L-1**

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended August 31, 2020

Data Codes		Responses
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any 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 warrant 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?	Yes
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	$ 3,536,935

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Orrick, Herrington & Sutcliffe LLP
300 W. 6th Street
Suite 1850
Austin, TX 78701

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November 18, 2021

Willis Independent School District
Unlimited Tax Refunding Bonds, Series 2021

We have acted as Bond Counsel to the Willis Independent School District (the "District") in connection with the issuance of $4,755,000 aggregate principal amount of bonds designated as "Willis Independent School District Unlimited Tax Refunding Bonds, Series 2021" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District on July 14, 2021, and a pricing certificate executed by an authorized officer executed pursuant thereto (together, the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

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 and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order and the obligations 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 BOKF, NA (the "Escrow Agent"); the report (the "Report") of Public Finance Partners LLC, which verifies the sufficiency of the deposit made with the Escrow Agent and certain other matters related to 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 No. T-1 of this issue.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. 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. Finally, 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 and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

(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, 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 taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

(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, if any, as set forth in the order(s) 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 on 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.

(4) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP