

**OFFICIAL STATEMENT**  
**Dated: January 10, 2022**

**NEW ISSUE: BOOK-ENTRY-ONLY**

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

**\$35,570,000**  
**WESTWOOD INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Anderson County, Texas)**  
**Unlimited Tax School Building Bonds, Series 2022**

**Dated Date: January 15, 2022**

**Due: February 15, as shown on the inside cover page**

The Westwood Independent School District Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 2, 2021 and an order (the "Order") authorizing the issuance of the Bonds adopted on January 10, 2022 by the Board of Trustees (the "Board") of the Westwood Independent School District (the "District"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15 and August 15 of each year, commencing August 15, 2022, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used to (i) renovate, improve, upgrade, update and equip school facilities in the District and any necessary or related removal of existing facilities, with priority given to safety, security, handicap accessibility, and the addition of square footage at the Junior High School for grade realignment, and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2033 are subject to redemption at the option of the District in whole or in part on February 15, 2032 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption, as described herein. (See "THE BONDS - Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").

**MATURITY SCHEDULE**  
(On Inside Cover)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser at a competitive sale (the "Purchaser" or the "Initial Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the services of DTC on or about February 9, 2022.*

**\$35,570,000**  
**WESTWOOD INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Anderson County, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

**MATURITY SCHEDULE**  
Base CUSIP No.: 961771<sup>(1)</sup>

**\$19,720,000 Serial Bonds**

<b>Maturity Date 2/15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix<sup>(1)</sup></b>
2023	\$625,000	5.00%	0.41%	AW2
2024	660,000	5.00	0.51	AX0
2025	690,000	5.00	0.60	AY8
2026	730,000	5.00	0.71	AZ5
2027	765,000	5.00	0.85	BA9
2028	805,000	5.00	1.04	BB7
2029	845,000	5.00	1.16	BC5
2030	890,000	5.00	1.25	BD3
2031	935,000	5.00	1.30	BE1
2032	980,000	5.00	1.35	BF8
2033	1,030,000	4.00	1.44 <sup>(2)</sup>	BG6
2034	1,065,000	3.00	1.51 <sup>(2)</sup>	BH4
2035	1,095,000	3.00	1.60 <sup>(2)</sup>	BJ0
2036	1,130,000	3.00	1.68 <sup>(2)</sup>	BK7
2037	1,160,000	2.00	2.11	BL5
2038	1,190,000	3.00	1.84 <sup>(2)</sup>	BM3
2039	1,225,000	3.00	1.91 <sup>(2)</sup>	BN1
2040	1,260,000	3.00	1.94 <sup>(2)</sup>	BP6
2041	1,300,000	3.00	1.97 <sup>(2)</sup>	BQ4
2042	1,340,000	3.00	2.00 <sup>(2)</sup>	BR2

(Interest to accrue from the Dated Date)

**\$15,850,000 Term Bonds**

\$7,330,000 3.000% Term Bond due February 15, 2047 – Price 107.156 (yield 2.20%) CUSIP Suffix No. BW1 <sup>(1)</sup>(2)  
\$8,520,000 3.000% Term Bond due February 15, 2052 – Price 105.770 (yield 2.35%) CUSIP Suffix No. CB6 <sup>(1)</sup>(2)

(Interest to accrue from the Dated Date)

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of 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 District, the Financial Advisor, or the Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2032, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

## WESTWOOD INDEPENDENT SCHOOL DISTRICT

### BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Dr. Carolyn J. Booker, President	1995	2022	Retired
Jeff Cooper, Vice President	2021	2023	Firefighter
Mike Kelly, Secretary	2016	2022	Retired
Leonard Armstrong, Member	2018	2024	Retired
Angela Choate, Member	2021	2024	Regional Business Manager
Brian Jones, Member	2021	2023	Business Owner
Ronnie Stanhope, Member	2014	2023	Law Enforcement

### APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Wade Stanford	Superintendent	39 Years	5 Years
Kyle Johnson	Assistant Superintendent	12 Years	6 Years
Katie Atkins	Assistant Superintendent	18 Years	1 Year

### CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Axley & Rode LLP, Lufkin, Texas	Certified Public Accountants

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Plano, Texas 75024  
(214) 765-1470  
(214) 279-8683 (Fax)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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

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

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## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The District</b>	The Westwood Independent School District (the "District") is a political subdivision of the State of Texas located in Anderson County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
<b>The Bonds</b>	The Bonds are being issued in the principal amount of \$35,570,000 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 2, 2021, and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board on January 10, 2022. Proceeds from the sale of the Bonds will be used to (i) renovate, improve, upgrade, update and equip school facilities in the District and any necessary or related removal of existing facilities, with priority given to safety, security, handicap accessibility, and the addition of square footage at the Junior High School for grade realignment, and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
<b>Security</b>	The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
<b>Redemption</b>	The Bonds maturing on or after February 15, 2033 are subject to redemption at the option of the District in whole or in part on February 15, 2032 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS - Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").
<b>Permanent School Fund Guarantee</b>	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), 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.")
<b>Ratings</b>	The Bonds rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's unenhanced, underlying rating, including the Bonds, is "A1" by Moody's. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the Guarantee Program" and "RATING" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel for the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.
<b>Delivery</b>	When issued, anticipated to be on or about February 9, 2022.

## INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Westwood Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Anderson County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") identified on the inside cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined below) and certain other 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 by writing the Westwood Independent School District, 4524 W. Oak, Palestine, Texas 75802 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the purchaser of the Bonds (the "Purchaser" or "Initial Purchaser") to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

## COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation and reopening. However, on March 2, 2021, the Governor issued Executive Order GA-34 effective March 10, 2021, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance, subject to certain exceptions. Notwithstanding the above, Executive Order GA-36 provides for public schools to continue to follow policies regarding the wearing of face coverings to the extent reflected in current guidance by TEA, until June 4, 2021. However, Executive Order GA-36 required TEA to revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. TEA has since updated its guidance in accordance with Executive Order GA-36. Executive Order GA-38, issued on July 29, 2021 and Executive Order GA-39, issued on August 25, 2021, further provide that governmental entities cannot require mask mandates, vaccine passports, or mandatory vaccinations. On October 11, 2021, the Governor issued Executive Order GA-40, prohibiting any entity from requiring COVID vaccinations. Various lawsuits have been filed throughout the State related to the foregoing. Executive orders remain in place until they are amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <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 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 fully quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The TEA advised districts that for the 2020-2021 school year district funding will 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 three six weeks of the 2020-2021 school year. If a district's first two six-week average ADA is less than the ADA hold harmless projections (described below), the first two six-week attendance reporting periods for 2020-2021 will be excluded from the calculation of annual ADA and student fulltime equivalents ("FTE") for Foundation School Program ("FSP") funding purposes and will be replaced with the ADA and FTE hold harmless projections that were derived using a three-year average trend of final numbers from the 2017-2018 through 2019-2020 school years, unless this projection is both (i) 15% higher and (ii) 100 ADA higher than the 2020-2021 legislative planning estimate ("LPE") projections provided by the TEA to the State legislature pursuant to Section 48.269 of the Texas Education Code, in which case the 2020-2021 LPE ADA and FTE will be used as the hold harmless projections.

The ADA hold harmless protection was also 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 recent extension also potentially provided ADA hold harmless protection to districts that were not previously eligible for the ADA hold harmless protection during 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 Pandemic has negatively affected travel, commerce, and financial markets globally, and may continue negatively affecting economic growth and financial markets worldwide. In addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

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 (which markets provide significant revenues to the State, who in turn, use such revenues to satisfy its public school funding obligations). See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

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

The financial and operating data contained in this Official Statement are as of dates and for periods stated herein. Accordingly, they are not indicative of the future prospects of the District. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

## **THE BONDS**

### **Authorization and Purpose**

The Bonds are being issued in the principal amount of \$35,570,000 pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 2, 2021 (the "Election") and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board of Trustees (the "Board") on January 10, 2022. Proceeds from the sale of the Bonds will be used to (i) renovate, improve, upgrade, update and equip school facilities in the District and any necessary or related removal of existing facilities, with priority given to safety, security, handicap accessibility, and the addition of square footage at the Junior High School for grade realignment, and (ii) pay the costs of issuing the Bonds.

### **General Description**

The Bonds are dated January 15, 2022 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on August 15, 2022 and on each February 15 and August 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a maturity.

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books at the close of business on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

### **Optional Redemption**

The Bonds maturing on or after February 15, 2033 are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, on February 15, 2032, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of 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. 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 registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

## **Mandatory Sinking Fund Redemption**

The Bonds maturing on February 15, 2047 and February 15, 2052 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity, and will be redeemed by the District, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

<u>Term Bonds</u> <u>February 15, 2047</u>		<u>Term Bonds</u> <u>February 15, 2052</u>	
<u>Date</u> <u>(2/15)</u>	<u>Amount</u>	<u>Date</u> <u>(2/15)</u>	<u>Amount</u>
2043	\$1,380,000	2048	\$1,605,000
2044	1,420,000	2049	1,650,000
2045	1,465,000	2050	1,700,000
2046	1,510,000	2051	1,755,000
2047*	1,555,000	2052*	1,810,000

### ***\*Stated Maturity***

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 15 from money set aside for that purpose in the Bond Fund (as defined in the Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of such Stated Maturity which, at least forty-five (45) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been redeemed, to the extent applicable, pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement, or (iii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund.

## **Notice of Redemption and DTC Notices**

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such 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 may, 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 notice of conditional 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. Any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder, and, subject to provision for payment of the redemption price having been made, AND ALL PRECONDITIONS STATED IN THE NOTICE OF REDEMPTION, IF ANY, HAVING BEEN SATISFIED interest on the redeemed Bonds shall cease to accrue from and after such redemption date notwithstanding that a Bond has not been presented for payment.

## **Security**

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

## **Permanent School Fund Guarantee**

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

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.



## Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

## Payment Record

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

## Amendments

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the majority of owners of the Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or interest on outstanding Bonds or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

## Defeasance

The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (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 (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other 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. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. District officials may restrict such eligible securities as deemed appropriate in connection with the sale of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished, provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

## Sources and Uses of Funds

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

### Sources

Par Amount of Bonds	\$ 35,570,000.00
Accrued Interest	81,620.00
Net Reoffering Premium	4,023,774.30
<b>Total Sources of Funds</b>	<b>\$ 39,675,394.30</b>

## Uses

Deposit to Construction Fund	\$ 38,325,000.00
Costs of Issuance	190,306.94
Purchaser's Discount	170,912.36
Deposit to Interest and Sinking Fund	989,175.00
<b>Total Uses of Funds</b>	<b>\$ 39,675,394.30</b>

## REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

## BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and 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 Purchaser 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 Bond 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](http://www.dtcc.com).

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

the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If 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 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).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to the Bonds 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 to bond holders.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered to bond holders.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, nor the Purchaser take any responsibility for the accuracy thereof.

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect 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.

### **REGISTRATION, TRANSFER AND EXCHANGE**

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

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

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

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

#### **Initial Registration**

Definitive Bonds will be initially registered and delivered only to CEDE & CO., the nominee of DTC pursuant to the Book-Entry-Only System described herein.

#### **Future Registration**

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds 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 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (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 aggregate principal amount as the Bonds surrendered for exchange or transfer.

### **Record Date For Interest Payment**

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

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

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

### **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and 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 a certificate to the effect 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 indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

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

*The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Purchaser.*

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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. 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 administered by the GLO on behalf of the Fund. The SLB is governed by a five member board, the membership of which consists of the Land Commissioner, who sits as the chairman of the board, and four citizen members appointed by the Governor. The SLB and is generally authorized to invest in the following asset classes:

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

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

In 2019, the Texas Legislature enacted legislation that required an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. The inaugural joint meeting was held in September 2020. Other legislation enacted in 2019 included a bill that created a "permanent school fund liquid account" (the "Liquid Account") in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. That legislation also provided for the SBOE to administer and invest the Liquid Account and required the TEA, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. That study (the "PSF Distribution Study"), dated August 31, 2020, is available at <https://tea.texas.gov/sites/default/files/TEA-Distribution-Study.pdf>.

### **The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a 'total-return-based' formula instead of the 'current-income-based' formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." The definition of intergenerational equity that the SBOE has generally followed is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon its staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the

analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

On November 8, 2011, a referendum was held in the State at which voters of the State approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF and authorized the SLB to make direct transfers to the ASF, as described below.

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

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO or SLB was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from the GLO, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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

#### Annual Distributions to the Available School Fund<sup>1</sup>

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 <sup>2</sup>
Per Student Distribution	\$246	\$221	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347

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

<sup>2</sup> 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 <sup>1</sup>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

<sup>1</sup> 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

	<b>PSF Total</b>	<b>PSF(SBOE)</b>	<b>PSF(SLB)</b>	<b>Liquid Account</b>
<b>Equity Total</b>	47%	52%	0%	40%
<b>Public Equity Total</b>	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%
<b>Private Equity</b>	13%	15%	0%	0%
<b>Fixed Income Total</b>	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%



<b>Alternative Investments Total</b>	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%
<b>Emerging Manager Program</b>	0%	1%	0%	0%
<b>Cash</b>	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)<sup>1</sup>**

Fair Value (in millions) August 31, 2020 and 2019				
ASSET CLASS	August 31, 2020	August 31, 2019	Amount of Increase (Decrease)	Percent Change
<b>EQUITY</b>				
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%
<b>TOTAL EQUITY</b>	<b>13,493.0</b>	<b>11,965.8</b>	<b>1,527.2</b>	<b>12.8%</b>
<b>FIXED INCOME</b>				
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%
<b>TOTAL FIXED INCOME</b>	<b>7,602.0</b>	<b>6,985.6</b>	<b>616.4</b>	<b>8.8%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
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%
<b>TOT ALT INVESTMENTS</b>	<b>14,593.1</b>	<b>15,145.8</b>	<b>(552.7)</b>	<b>-3.6%</b>
<b>UNALLOCATED CASH</b>	<b>122.9</b>	<b>163.3</b>	<b>(40.4)</b>	<b>-24.7%</b>
<b>TOTAL PSF(SBOE) INVESTMENTS</b>	<b>\$ 35,811.0</b>	<b>\$ 34,260.5</b>	<b>\$ 1,550.5</b>	<b>4.5%</b>

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

<sup>1</sup> 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<sup>1</sup>

##### ASSET CLASS

##### Fixed Income

Short-Term Fixed Income	\$1,597.3
Unallocated Cash	<u>2,453.3</u>

Total Liquid Account Investments \$4,050.6

<sup>1</sup> In millions of dollars.

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

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

#### Comparative Investment Schedule - PSF(SLB)

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

	<u>As of</u> <u>8-31-20</u>	<u>As of</u> <u>8-31-19</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
Asset Class				
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds <sup>1</sup>				
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 <sup>2</sup>	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%

<sup>1</sup> 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.

<sup>2</sup> 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.

<u>Changes in SBOE-determined multiplier for State law capacity</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00

September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS would issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provided that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009, multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion.

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The State Law Capacity increased from \$123,509,204,770 on August 31, 2019 to \$128,247,002,583 on August 31, 2020 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds (the "Capacity Reserve"). The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5% and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP Capacity. The Education Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Education Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at [http://tea.texas.gov/Finance\\_and\\_Grants/Permanent\\_School\\_Fund/](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, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “RATING” herein.

#### Valuation of the PSF and Guaranteed Bonds

##### Permanent School Fund Valuations

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

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

<sup>(2)</sup> At August 31, 2020, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At 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 <sup>(1)</sup>
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 <sup>(2)</sup>

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

<sup>(2)</sup> 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<sup>(1)</sup>

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2016	3,244	\$67,342,303,445	35	\$961,025,000	3,279	\$68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 <sup>(2)</sup>	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

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

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

The following discussion is derived from the Annual Report for the year ended August 31, 2020, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

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

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2020.

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

### PSF Returns Fiscal Year Ended 8-31-2020<sup>1</sup>

Portfolio	Return	Benchmark Return <sup>2</sup>
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

<sup>1</sup> 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.

<sup>2</sup> 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\\_State\\_ment\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_State_ment_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

### **Annual Reports**

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

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

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

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

### **Event Notices**

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax 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](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may

qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Litigation Relating to the Texas Public School Finance System

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

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

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

### Possible Effects of Changes in Law on District Bonds

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

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

### CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

### Overview

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

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

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

was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of \$1.50 per \$100 of taxable 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.

## **2021 Regular and Special Legislative Sessions**

The Texas Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 ("87th Regular Session"). During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. Following the conclusion of the 87th Regular Session, the Texas Governor has called three special sessions of the Legislature. No significant changes were made to the Texas school finance system or property tax systems during the First and Second Special Sessions. Senate Joint Resolution 2, passed during the Third Special Session, proposes a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000. If approved by the voters at an election to be held on May 7, 2022, the proposed amendment to the Constitution will be effective for the tax year beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session makes provisions based on the outcome of the constitutional amendment election for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

The District can make no representations or predictions regarding any actions the Legislature has taken or may take during the 87th Special Session concerning the substance or the effect of any legislation that previously passed or may be passed during any session.

## **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" is set at 93% per \$100 of taxable value. The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

### ***Maximum Compressed Tax Rate***

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

### ***Tier One Tax Rate***

A school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

### ***Enrichment Tax Rate***

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

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

## State Funding for School Districts

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

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

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

For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding. For the 2021-2022 school year, the fast growth allotment weight is 0.45 for districts in the top 40% of school districts for growth, 0.30 for districts in the middle 30% of school districts for growth and 0.15 for districts in the bottom 30% of school districts for growth. After the 2021-2022 school year, the fast growth allotment weights change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$270 million for the 2021-2022 school year, \$310 million for the 2022-2023 school year and \$315 million for the 2023-2024 school year.

### ***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.

### ***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. Notwithstanding the foregoing, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

### **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 II guarantee as previously discussed (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

### ***Options for Local Revenue Levels in Excess of Entitlement***

Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an

area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

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

### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT**

For the 2021-2022 school year, the District was not designated as an "excess local revenue" Chapter 49 district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level..

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

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

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

#### **Valuation of Taxable Property**

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

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

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

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

#### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the 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. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person's residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse's residence homestead if the spouse was at least 55 years old. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

#### **Local Option Homestead Exemptions**

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1),

above. 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. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

### **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. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and 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. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

### **Other Exempt Property**

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

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

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

### **Tax Increment Reinvestment Zones**

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

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



## **Tax Limitation Agreements**

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87<sup>th</sup> Texas Legislature did not vote to extend this program, which now is 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 "AD VALOREM TAX PROCEDURES – 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.

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, \$50.6 million for the 2021 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

## **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. 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.

## **TAX RATE LIMITATIONS**

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

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the Tucker Common School District (which was renamed to the District in 1976) at an election held on June 5, 1971 pursuant to Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code, as amended).

HB3 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 2019 and subsequent tax years:

The maximum maintenance 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. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, 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").

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. The Bonds are issued as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has not utilized projected property values or State assistance to satisfy the \$0.50 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 (60<sup>th</sup>) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71<sup>st</sup>) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60<sup>th</sup>) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-new-revenue tax rate" calculated for that tax year or the tax rate adopted by the school district for the preceding tax year. A school district's failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71<sup>st</sup>) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60<sup>th</sup>) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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 of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before

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

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

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

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Anderson County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Anderson County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

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

The District collects 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.

The District's taxes are collected by the Anderson County Appraisal District.

The District does allow split payments but does not give discounts for early payment of taxes.

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

The District does not grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has granted the freeport exemption. The District has not taken action to tax goods-in-transit.

#### **EMPLOYEES' 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 "Notes to the Financial Statements – Note 7 – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2021 as set forth in APPENDIX D 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 "Notes to the Financial Statements, Note D – Defined Other Post-Employment Benefit Plan" in the audited financial statements of the District for the year ended August 31, 2021 as set forth in APPENDIX D hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 Accounting and Financial Reporting for Pensions, which was later amended by GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015.

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.

#### **RATINGS**

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") based upon the Texas Permanent School Fund Guarantee Program. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's underlying, unenhanced rating, including the Bonds, is "A1" by Moody's. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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

## LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel represents the Financial Advisor and purchasers of school district bonds from time to time in matters unrelated to the issuance of the Bonds, but Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds.

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

## TAX MATTERS

### Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C – Form of Legal Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith, and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the facilities financed with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, all of which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **INVESTMENT POLICIES**

### **Investments**

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

### **Legal Investments**

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other

obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity 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 investing entity 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 investing entity'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 investing entity appoints as the entity's custodian of the banking deposits issued for the entity'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 Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates (i) that are issued by an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the District through (I) 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 (II) a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds 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; (d) the District appoints the depository institution selected under (a) above, an entity described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the investing entity with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased 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 or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less from the date of issuance, 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 the remaining term of 365 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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 Securities and Exchange Commission provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7; and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of the bond proceeds invested under such contract, other than the prohibited obligations described in the succeeding paragraph.

Entities such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, 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 by clauses (1) through (8) above, (b) irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and is continuously rated by at least one 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) and (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, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

The District 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.

Under State law, 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 of 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.

## Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment

type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

#### **Additional Provisions**

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt 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 entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in 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.

#### **Current Investments**

As of November 30, 2021, the District had approximately \$6,704,056 (unaudited) invested in Lone Star Investment Pool (which is a government investment pool that generally has the characteristics of a money-market mutual fund) and \$2,207,912 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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

No registration statement relating to the Bonds has been filed with the SEC under the United States 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 acts 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 Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District has agreed to cooperate, at the Purchaser’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.

#### **FINANCIAL ADVISOR**

SAMCO Capital Markets, Inc. (the “Financial Advisor”) is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “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 with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District will make the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX D to this Official Statement, which is customarily prepared by the District and publicly available. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2022.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's annual financial statements 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 end of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

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

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

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

#### **Availability of Information**

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Limitations and Amendments**

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



of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

### **Compliance with Prior Undertakings**

The District has not previously entered into a continuing disclosure agreement in accordance with the Rule.

### **LITIGATION**

In the opinion of District officials, the District is not a party to any litigation or other proceeding pending or to their knowledge threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

### **FORWARD-LOOKING STATEMENTS**

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

The forward-looking statements 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.

### **WINNING BIDDER**

After requesting competitive bids for the Bonds, the District accepted the bid of Piper Sandler & Co. (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net reoffering premium of \$4,023,774.30, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

### **CERTIFICATION OF THE OFFICIAL STATEMENT AND NO LITIGATION**

At the time of payment for and delivery of the Initial Bond, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the District, since August 31, 2021, the date of the last financial statements of the District appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

### **CONCLUDING 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. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such

provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Order authorized the issuance of the Bonds approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Purchaser and approved by the Board for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ Dr. Carolyn J. Booker

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President, Board of Trustees

ATTEST:

/s/ Mike Kelly

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Secretary, Board of Trustees

**APPENDIX A**

**FINANCIAL INFORMATION OF THE DISTRICT**

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# WESTWOOD INDEPENDENT SCHOOL DISTRICT

## Financial Information

### ASSESSED VALUATION <sup>(1)</sup>

2021/22 Total Valuation.....		\$	736,699,230
Less Exemptions & Deductions <sup>(2)</sup> :			
State Homestead Exemption	\$	46,349,989	
State Over-65 Exemption		8,404,815	
Disabled Homestead Exemption Loss		4,877,978	
Veterans Exemption Loss		886,303	
Freeport Exemption		8,528,269	
Pollution Control Exemption Loss		826,697	
Productivity Loss		95,445,553	
Homestead Cap Loss		3,230,071	
	\$	168,549,675	
2021/22 Certified Net Taxable Valuation <sup>(3)</sup> .....		\$	568,149,555

(1) Source: Anderson County Appraisal District Certified Values as of July 2021. The passage of a Texas constitutional amendment that is on the ballot in the November 3, 2015 election increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential Homestead Exemptions" in this Official Statement.  
(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$13,041,987 in 2020/21.  
(3) Source: Municipal Advisory Council of Texas.

### VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding	\$	-
Plus: The Bonds		35,570,000
Total Unlimited Tax Bonds	\$	35,570,000
Less: Interest & Sinking Fund Balance (As of August 31, 2021) <sup>(1)</sup>		-
Net General Obligation Debt	\$	35,570,000

Ratio of Net G.O. Debt to Net Taxable Valuation <sup>(2)</sup> 6.26%

2022 Population Estimate <sup>(3)</sup>	11,722
Per Capita Net Taxable Valuation	\$48,469
Per Capita Net G.O. Debt	\$3,034

(1) Source: Westwood ISD Audited Financial Statements.  
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2021" in Appendix D for more information relative to the District's outstanding obligations.  
(3) Source: Municipal Advisory Council of Texas.

### PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation <sup>(1)</sup>		Tax Rate	% Collections <sup>(4)</sup>	
				Current <sup>(5)</sup>	Total <sup>(5)</sup>
2006/07	\$	383,269,217 <sup>(1)</sup>	\$ 1.2250 <sup>(6)</sup>	95.88%	102.41%
2007/08		379,220,992 <sup>(1)</sup>	1.0050 <sup>(6)</sup>	96.88%	101.57%
2008/09		423,258,634 <sup>(1)</sup>	1.0400	95.83%	101.44%
2009/10		440,343,067 <sup>(1)</sup>	1.0400	96.28%	99.70%
2010/11		438,218,302 <sup>(1)</sup>	1.1700	96.40%	99.56%
2011/12		457,685,926 <sup>(1)</sup>	1.1700	95.82%	98.27%
2012/13		451,657,319 <sup>(1)</sup>	1.1700	97.17%	102.99%
2013/14		454,403,526 <sup>(1)</sup>	1.1700	97.42%	100.30%
2014/15		453,130,805 <sup>(1)</sup>	1.1700	97.62%	101.51%
2015/16		515,862,912 <sup>(1)(3)</sup>	1.1700	98.10%	100.46%
2016/17		500,801,127 <sup>(1)(3)</sup>	1.1700	96.40%	98.47%
2017/18		499,017,044 <sup>(1)(3)</sup>	1.1700	97.92%	100.36%
2018/19		502,135,972 <sup>(1)(3)</sup>	1.1700	97.97%	100.02%
2019/20		454,963,987 <sup>(1)(3)</sup>	1.0683 <sup>(7)</sup>	98.18%	100.38%
2020/21		528,828,710 <sup>(1)(3)</sup>	1.0527	97.97%	100.56%
2021/22		568,149,555 <sup>(2)(3)</sup>	1.0106	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.  
(2) Source: Anderson County Appraisal District Certified Values as of July 2021.  
(3) The passage of a Texas constitutional amendment on November 3, 2015 election increased the homestead exemption from \$15,000 to \$25,000.  
(4) Source: Westwood ISD Audited Financial Statements.  
(5) Excludes penalties and interest.  
(6) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.  
(7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year 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" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

**TAX RATE DISTRIBUTION <sup>(1)</sup>**

	2017/18	2018/19	2019/20 <sup>(2)</sup>	2020/21	2021/22
Maintenance & Operations	\$1.1700	\$1.1700	\$1.0683	\$1.0527	\$1.0106
Debt Service	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Total Tax Rate	<u>\$1.1700</u>	<u>\$1.1700</u>	<u>\$1.0683</u>	<u>\$1.0527</u>	<u>\$1.0106</u>

(1) On November 2, 2010, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed \$1.17.

(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

**VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding <sup>(1)</sup>	Ratio Debt to A.V. <sup>(2)</sup>
2006/07	\$ 383,269,217	\$ -	0.00%
2007/08	379,220,992	-	0.00%
2008/09	423,258,634	-	0.00%
2009/10	440,343,067	-	0.00%
2010/11	438,218,302	-	0.00%
2011/12	457,685,926	-	0.00%
2012/13	451,657,319	-	0.00%
2013/14	454,403,526	-	0.00%
2014/15	453,130,805	-	0.00%
2015/16	515,862,912	-	0.00%
2016/17	500,801,127	-	0.00%
2017/18	499,017,044	-	0.00%
2018/19	502,135,972	-	0.00%
2019/20	454,963,987	-	0.00%
2020/21	528,828,710	-	0.00%
2021/22	568,149,555 <sup>(3)</sup>	35,570,000	6.26%

(1) At fiscal year end.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2021" in Appendix D for more information.

(3) Source: Anderson County Appraisal District Certified Values as of July 2021.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Anderson County	\$ 26,210,000	17.14%	\$ 4,492,394
City of Palestine	23,924,529	16.92%	<u>4,048,030</u>
Total Overlapping Debt <sup>(1)</sup>			\$ 8,540,424
Westwood Independent School District <sup>(2)</sup>			<u>35,570,000</u>
Total Direct & Overlapping Debt <sup>(2)</sup>			<u>\$ 44,110,424</u>
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		7.76%	
Per Capita Direct & Overlapping Debt		\$3,763	

(1) Equals gross debt less self-supporting debt.

(2) Includes the Bonds.

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.

## PRINCIPAL TAXPAYERS

### 2021/22 Top Ten Taxpayers <sup>(1)</sup>

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Sanderson Farms Inc.	Meat Products	\$ 105,380,952	18.55%
Wal-Mart Stores	Retail Store	33,103,152	5.83%
North Arkansas Wholesale Co. LLC	Wholesale Supplier	19,073,917	3.36%
Oncor Electric Delivery Co. LLC	Electric Utility	8,759,946	1.54%
Union Pacific Railroad Co.	Railroad	8,453,306	1.49%
Atmos Energy/Mid-Tex Pipeline	Pipeline	6,651,170	1.17%
Potters Industries LLC	Industrial Manufacturing	3,669,577	0.65%
Eastern Fuel Properties LLC	Commercial Building	3,486,767	0.61%
DHI Woodside Apartments LLC	Apartments	2,847,382	0.50%
MKS Services LLC	Wholesale Supplier	2,643,048	0.47%
		<u>\$ 194,069,217</u>	<u>34.16%</u>

### 2020/21 Top Ten Taxpayers <sup>(2)</sup>

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Sanderson Farms Inc.	Meat Products	\$ 95,236,279	18.01%
Wal-Mart Stores	Retail Store	59,250,633	11.20%
North Arkansas Wholesale Co. LLC	Wholesale Supplier	19,073,917	3.61%
Oncor Electric Delivery Co. LLC	Electric Utility	8,234,891	1.56%
Union Pacific Railroad Co.	Railroad	7,818,516	1.48%
ETA Global Inc	Wholesale Supplier	5,419,178	1.02%
Paccar Financial Corp.	Inventory	5,284,305	1.00%
Ennis Paint	Chemical Plant	4,418,370	0.84%
Atmos Energy/Mid-Tex Pipeline	Pipeline	4,114,638	0.78%
Eastern Fuel Properties LLC	Commercial Building	3,585,246	0.68%
		<u>\$ 212,435,973</u>	<u>40.17%</u>

### 2019/20 Top Ten Taxpayers <sup>(2)</sup>

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Sanderson Farms Inc.	Meat Products	\$ 94,920,502	20.86%
Wal-Mart Stores	Retail Store	47,051,771	10.34%
North Arkansas Wholesale Co. LLC	Wholesale Supplier	19,073,917	4.19%
Ennis Paint	Chemical Plant	7,798,195	1.71%
Union Pacific Railroad Co.	Railroad	7,429,458	1.63%
Oncor Electric Delivery Co. LLC	Electric Utility	6,851,845	1.51%
Ranger Energy Services LLC	Drilling Services/Equipment	5,201,888	1.14%
Eastern Fuel Properties LLC	Commercial Building	3,578,430	0.79%
Liem Hoa Poultry LLC	Farm	3,347,194	0.74%
Acid & Cementing Service Inc.	Drilling Services/Equipment	3,255,227	0.72%
		<u>\$ 198,508,427</u>	<u>43.63%</u>

(1) Source: Anderson County Appraisal District.

(2) Source: Comptroller of Public Accounts - Property Tax Division.

Note: As shown in the table above, the total combined top ten taxpayers in the District currently account for over 34% of the District's tax base. In addition, the top taxpayer in the District currently accounts for over 18% of the District's tax base, thereby creating a concentration risk for the District. Any adverse development related to Sanderson Farms Inc. or its subsidiaries affecting its ability to continue to conduct business at its location within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting in financial difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

<u>Category</u>	<u>2021/22 <sup>(1)</sup></u>	<u>% of Total</u>	<u>2020/21 <sup>(2)</sup></u>	<u>% of Total</u>	<u>2019/20 <sup>(2)</sup></u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 198,619,511	26.96%	\$ 178,462,036	26.57%	\$ 175,251,079	26.85%
Real, Residential, Multi-Family	3,364,969	0.46%	3,273,466	0.49%	3,266,526	0.50%
Real, Vacant Lots/Tracts	1,128,403	0.15%	1,117,539	0.17%	1,105,503	0.17%
Real, Qualified Land & Improvements	99,613,554	13.52%	86,365,778	12.86%	84,259,035	12.91%
Real, Non-Qualified Land & Improvements	99,639,213	13.53%	91,315,106	13.60%	85,244,415	13.06%
Real, Commercial & Industrial	143,387,710	19.46%	140,309,119	20.89%	141,037,583	21.61%
Oil & Gas	3,281,777	0.45%	3,875,898	0.58%	6,444,960	0.99%
Utilities	29,753,909	4.04%	26,655,907	3.97%	23,435,757	3.59%
Tangible Personal, Commercial & Industrial	143,519,179	19.48%	126,091,212	18.77%	118,681,394	18.18%
Tangible Personal, Mobile Homes & Other	14,065,615	1.91%	13,807,100	2.06%	13,772,065	2.11%
Tangible Personal, Residential Inventory	14,657	0.00%	14,657	0.00%	14,657	0.00%
Tangible Personal, Special Inventory	<u>310,733</u>	<u>0.04%</u>	<u>365,382</u>	<u>0.05%</u>	<u>286,017</u>	<u>0.04%</u>
<b>Total Appraised Value</b>	<b>\$ 736,699,230</b>	<b>100.00%</b>	<b>\$ 671,653,200</b>	<b>100.00%</b>	<b>\$ 652,798,991</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 3,230,071		\$ 354,868		\$ 385,347	
Productivity Loss	95,445,553		82,323,863		80,006,733	
Exemptions <sup>(3)</sup>	<u>69,874,051</u>		<u>60,145,759</u>		<u>117,442,924</u>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 168,549,675</u>		<u>\$ 142,824,490</u>		<u>\$ 197,835,004</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 568,149,555</b>		<b>\$ 528,828,710</b>		<b>\$ 454,963,987</b>	

<u>Category</u>	<u>2018/19 <sup>(2)</sup></u>	<u>% of Total</u>	<u>2017/18 <sup>(2)</sup></u>	<u>% of Total</u>	<u>2016/17 <sup>(2)</sup></u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 172,003,580	26.84%	\$ 168,344,395	26.43%	\$ 161,660,595	25.19%
Real, Residential, Multi-Family	3,240,034	0.51%	3,228,971	0.51%	3,550,185	0.55%
Real, Vacant Lots/Tracts	1,133,232	0.18%	1,176,687	0.18%	1,188,887	0.19%
Real, Qualified Land & Improvements	77,994,728	12.17%	76,080,895	11.94%	74,701,411	11.64%
Real, Non-Qualified Land & Improvements	83,062,742	12.96%	79,661,506	12.51%	76,846,780	11.98%
Real, Commercial & Industrial	135,942,495	21.22%	132,607,426	20.82%	131,050,269	20.42%
Oil & Gas	4,435,628	0.69%	4,372,569	0.69%	2,600,455	0.41%
Utilities	23,924,102	3.73%	22,372,129	3.51%	23,330,774	3.64%
Tangible Personal, Commercial & Industrial	125,809,955	19.63%	136,354,608	21.41%	154,747,394	24.12%
Tangible Personal, Mobile Homes & Other	13,090,740	2.04%	12,520,425	1.97%	11,721,928	1.83%
Tangible Personal, Residential Inventory	14,657	0.00%	14,657	0.00%	3,753	0.00%
Tangible Personal, Special Inventory	<u>121,395</u>	<u>0.02%</u>	<u>228,916</u>	<u>0.04%</u>	<u>299,661</u>	<u>0.05%</u>
<b>Total Appraised Value</b>	<b>\$ 640,773,288</b>	<b>100.00%</b>	<b>\$ 636,963,184</b>	<b>100.00%</b>	<b>\$ 641,702,092</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 432,167		\$ 361,469		\$ 177,609	
Productivity Loss	73,866,291		71,205,512		70,484,634	
Exemptions <sup>(3)</sup>	<u>64,338,858</u>		<u>66,379,149</u>		<u>70,238,722</u>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 138,637,316</u>		<u>\$ 137,946,130</u>		<u>\$ 140,900,965</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 502,135,972</b>		<b>\$ 499,017,054</b>		<b>\$ 500,801,127</b>	

(1) Source: Anderson County Appraisal Districts Certified Values as of July 2021.

(2) Source: Comptroller of Public Accounts - Property Tax Division.

(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers



**PRINCIPAL REPAYMENT SCHEDULE**

Fiscal Year	Outstanding	Plus:		Bonds	Percent of
Ending 8/31	Bonds	The	Total	Unpaid	Principal
		Bonds		At Year End	Retired
2022	\$ -	\$ -	\$ -	\$ 35,570,000.00	0.00%
2023	-	625,000.00	625,000.00	34,945,000.00	1.76%
2024	-	660,000.00	660,000.00	34,285,000.00	3.61%
2025	-	690,000.00	690,000.00	33,595,000.00	5.55%
2026	-	730,000.00	730,000.00	32,865,000.00	7.60%
2027	-	765,000.00	765,000.00	32,100,000.00	9.76%
2028	-	805,000.00	805,000.00	31,295,000.00	12.02%
2029	-	845,000.00	845,000.00	30,450,000.00	14.39%
2030	-	890,000.00	890,000.00	29,560,000.00	16.90%
2031	-	935,000.00	935,000.00	28,625,000.00	19.52%
2032	-	980,000.00	980,000.00	27,645,000.00	22.28%
2033	-	1,030,000.00	1,030,000.00	26,615,000.00	25.18%
2034	-	1,065,000.00	1,065,000.00	25,550,000.00	28.17%
2035	-	1,095,000.00	1,095,000.00	24,455,000.00	31.25%
2036	-	1,130,000.00	1,130,000.00	23,325,000.00	34.43%
2037	-	1,160,000.00	1,160,000.00	22,165,000.00	37.69%
2038	-	1,190,000.00	1,190,000.00	20,975,000.00	41.03%
2039	-	1,225,000.00	1,225,000.00	19,750,000.00	44.48%
2040	-	1,260,000.00	1,260,000.00	18,490,000.00	48.02%
2041	-	1,300,000.00	1,300,000.00	17,190,000.00	51.67%
2042	-	1,340,000.00	1,340,000.00	15,850,000.00	55.44%
2043	-	1,380,000.00	1,380,000.00	14,470,000.00	59.32%
2044	-	1,420,000.00	1,420,000.00	13,050,000.00	63.31%
2045	-	1,465,000.00	1,465,000.00	11,585,000.00	67.43%
2046	-	1,510,000.00	1,510,000.00	10,075,000.00	71.68%
2047	-	1,555,000.00	1,555,000.00	8,520,000.00	76.05%
2048	-	1,605,000.00	1,605,000.00	6,915,000.00	80.56%
2049	-	1,650,000.00	1,650,000.00	5,265,000.00	85.20%
2050	-	1,700,000.00	1,700,000.00	3,565,000.00	89.98%
2051	-	1,755,000.00	1,755,000.00	1,810,000.00	94.91%
2052	-	1,810,000.00	1,810,000.00	-	100.00%
Total	<u>\$ -</u>	<u>\$ 35,570,000.00</u>	<u>\$ 35,570,000.00</u>		

**OTHER OBLIGATIONS**

Fiscal Year	Opearting
Ending 8/31	Leases
2022	\$ 12,075.00
2023	<u>2,871.00</u>
Total	<u>\$ 14,946.00</u>

**DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds <sup>(1)</sup>			Combined Total <sup>(1) (2)</sup>
		Principal	Interest	Total	
2022	\$ -	\$ -	\$ 714,175.00	\$ 714,175.00	\$ 714,175.00
2023	-	625,000.00	1,208,675.00	1,833,675.00	1,833,675.00
2024	-	660,000.00	1,176,550.00	1,836,550.00	1,836,550.00
2025	-	690,000.00	1,142,800.00	1,832,800.00	1,832,800.00
2026	-	730,000.00	1,107,300.00	1,837,300.00	1,837,300.00
2027	-	765,000.00	1,069,925.00	1,834,925.00	1,834,925.00
2028	-	805,000.00	1,030,675.00	1,835,675.00	1,835,675.00
2029	-	845,000.00	989,425.00	1,834,425.00	1,834,425.00
2030	-	890,000.00	946,050.00	1,836,050.00	1,836,050.00
2031	-	935,000.00	900,425.00	1,835,425.00	1,835,425.00
2032	-	980,000.00	852,550.00	1,832,550.00	1,832,550.00
2033	-	1,030,000.00	807,450.00	1,837,450.00	1,837,450.00
2034	-	1,065,000.00	770,875.00	1,835,875.00	1,835,875.00
2035	-	1,095,000.00	738,475.00	1,833,475.00	1,833,475.00
2036	-	1,130,000.00	705,100.00	1,835,100.00	1,835,100.00
2037	-	1,160,000.00	676,550.00	1,836,550.00	1,836,550.00
2038	-	1,190,000.00	647,100.00	1,837,100.00	1,837,100.00
2039	-	1,225,000.00	610,875.00	1,835,875.00	1,835,875.00
2040	-	1,260,000.00	573,600.00	1,833,600.00	1,833,600.00
2041	-	1,300,000.00	535,200.00	1,835,200.00	1,835,200.00
2042	-	1,340,000.00	495,600.00	1,835,600.00	1,835,600.00
2043	-	1,380,000.00	454,800.00	1,834,800.00	1,834,800.00
2044	-	1,420,000.00	412,800.00	1,832,800.00	1,832,800.00
2045	-	1,465,000.00	369,525.00	1,834,525.00	1,834,525.00
2046	-	1,510,000.00	324,900.00	1,834,900.00	1,834,900.00
2047	-	1,555,000.00	278,925.00	1,833,925.00	1,833,925.00
2048	-	1,605,000.00	231,525.00	1,836,525.00	1,836,525.00
2049	-	1,650,000.00	182,700.00	1,832,700.00	1,832,700.00
2050	-	1,700,000.00	132,450.00	1,832,450.00	1,832,450.00
2051	-	1,755,000.00	80,625.00	1,835,625.00	1,835,625.00
2052	-	1,810,000.00	27,150.00	1,837,150.00	1,837,150.00
	<u>\$ -</u>	<u>\$ 35,570,000.00</u>	<u>\$ 20,194,775.00</u>	<u>\$ 55,764,775.00</u>	<u>\$ 55,764,775.00</u>

(1) Includes accrued interest in the amount of \$81,620.00.

(2) Based on it's wealth per student, the District does not expect to receive state financial assistance for the payment of debt service for the fiscal year 2021/22. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS**

Projected Maximum Debt Service Requirement <sup>(1)</sup>	\$ 1,837,450.00
Projected State Financial Assistance <sup>(2)</sup>	-
Projected Net Debt Service Requirement <sup>(1) (2)</sup>	\$ 1,837,450.00
 \$0.33001 Tax Rate @ 98% Collections Produces	 \$ 1,837,450.00
 2021/22 Certified Net Taxable Assessed Valuation	 \$ 568,149,555

(1) Includes the Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2021/22.

**AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Bonds, the District will have \$0 of authorized but unused ad valorem tax bonds from the November 2, 2021 election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES <sup>(1)</sup>

	Fiscal Year Ended August 31				
	2017	2018	2019	2020	2021
<b>Beginning Fund Balance</b>	<b>\$ 5,738,498</b>	<b>\$ 6,382,025</b>	<b>\$ 7,059,571</b>	<b>\$ 7,457,657</b>	<b>\$ 8,495,411</b>
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 6,032,778	\$ 6,207,753	\$ 6,397,295	\$ 5,551,612	\$ 5,769,349
State Sources	8,197,219	8,551,741	8,699,113	10,689,170	9,999,221
Federal Sources & Other	206,957	235,768	150,684	61,451	183,834
<b>Total Revenues</b>	<b>\$ 14,436,954</b>	<b>\$ 14,995,262</b>	<b>\$ 15,247,092</b>	<b>\$ 16,302,233</b>	<b>\$ 15,952,404</b>
<b>Expenditures:</b>					
Instruction	\$ 6,858,657	\$ 7,171,506	\$ 7,154,935	\$ 7,578,441	\$ 7,001,155
Instructional Resources & Media Services	102,173	140,900	77,533	154,722	164,792
Curriculum & Instructional Staff Development	247,517	238,585	322,393	341,064	366,333
Instructional Leadership	-	-	-	5,072	64,401
School Leadership	860,900	873,243	926,009	1,096,529	1,052,069
Guidance, Counseling & Evaluation Services	331,372	328,970	284,439	311,489	323,756
Health Services	93,338	91,664	121,013	156,958	192,293
Student (Pupil) Transportation	854,561	917,404	893,745	874,737	912,901
Food Services	(11)	130	-	5,531	351
Cocurricular/Extracurricular Activities	707,076	892,436	877,263	1,140,385	1,103,437
General Administration	618,032	679,084	677,481	733,243	812,379
Plant Maintenance and Operations	1,841,769	2,020,097	1,662,119	1,545,731	1,851,464
Security and Monitoring Services	31,089	23,732	17,383	24,602	17,399
Data Processing Services	555,937	521,256	531,185	558,076	599,152
Facilities Acquisition and Construction	222,961	-	847,744	-	-
Capital Outlay	-	-	-	19,000	161,432
Payments to Fiscal Agent/Member Districts of SSA	360,703	313,009	331,324	438,830	513,722
Other Intergovernmental Charges	107,353	105,700	104,318	98,333	100,284
<b>Total Expenditures</b>	<b>\$ 13,793,427</b>	<b>\$ 14,317,716</b>	<b>\$ 14,828,884</b>	<b>\$ 15,082,743</b>	<b>\$ 15,237,320</b>
Excess (Deficiency) of Revenues					
over Expenditures	\$ 643,527	\$ 677,546	\$ 418,208	\$ 1,219,490	\$ 715,084
<b>Other Resources and (Uses):</b>					
Transfers Out	\$ -	\$ -	\$ (20,122)	\$ (181,736)	\$ (700,000)
<b>Total Other Resources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (20,122)</b>	<b>\$ (181,736)</b>	<b>\$ (700,000)</b>
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	\$ 643,527	\$ 677,546	\$ 398,086	\$ 1,037,754	\$ 15,084
<b>Ending Fund Balance</b>	<b>\$ 6,382,025</b>	<b>\$ 7,059,571</b>	<b>\$ 7,457,657</b>	<b>\$ 8,495,411</b>	<b>\$ 8,510,495</b>

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budget and Rates" in Appendix D hereto for a discussion of the 2021/22 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.

**CHANGE IN NET ASSETS <sup>(1)</sup>**

	Fiscal Year Ended August 31				
	2017	2018	2019	2020	2021
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 162,308	\$ 203,510	\$ 145,375	\$ 181,816	\$ 237,986
Operating Grants and Contributions	2,476,530	(30,865)	3,271,774	3,294,232	3,799,953
<b>General Revenues:</b>					
Property Taxes Levied for General Purposes	5,581,908	5,574,142	5,664,965	5,264,437	5,051,233
State Aid - Formula Grants	7,560,120	7,897,514	8,068,283	-	-
Grants and Contributions Not Restricted	211,254	-	27,674	10,795,790	10,302,729
Investment Earnings	46,071	94,932	162,643	120,430	26,562
Miscellaneous	585,313	385,065	526,516	33,390	(82,710)
	<u>\$ 16,623,504</u>	<u>\$ 14,124,298</u>	<u>\$ 17,867,230</u>	<u>\$ 19,690,095</u>	<u>\$ 19,335,753</u>
<b>Expenses:</b>					
Instruction	\$ 8,051,684	\$ 5,475,313	\$ 8,541,369	\$ 9,661,076	\$ 9,640,970
Instruction Resources & Media Services	107,415	95,072	84,126	154,722	164,792
Curriculum & Staff Development	286,159	220,077	451,799	580,071	594,492
Instructional Leadership	-	-	-	5,900	70,606
School Leadership	981,741	672,071	1,105,148	1,532,516	1,315,042
Guidance, Counseling & Evaluation Services	345,243	216,026	309,943	380,311	370,710
Health Services	96,575	60,059	132,037	156,958	198,975
Student Transportation	810,598	685,400	870,613	937,270	1,002,221
Food Service	1,063,413	791,260	992,692	1,082,089	1,018,589
Cocurricular/Extracurricular Activities	803,107	775,170	607,155	1,289,279	1,288,300
General Administration	637,783	519,770	722,782	861,600	907,877
Plant Maintenance & Operations	2,074,766	1,883,511	2,055,798	1,977,245	2,139,102
Security and Monitoring Services	35,338	25,263	34,572	27,642	20,439
Data Processing Services	559,407	433,253	570,059	624,685	646,542
Community Services	-	-	-	229,437	215,870
Capital Outlay	-	-	847,744	19,000	61,563
Payments for Shared Service Arrangements	360,703	313,009	331,324	438,830	513,722
Other Intergovernmental Charges	107,353	105,700	104,318	98,333	100,284
<b>Total Expenditures</b>	<u>\$ 16,321,285</u>	<u>\$ 12,270,954</u>	<u>\$ 17,761,479</u>	<u>\$ 20,056,964</u>	<u>\$ 20,270,096</u>
<b>Change in Net Assets</b>	\$ 302,219	\$ 1,853,344	\$ 105,751	\$ (366,869)	\$ (934,343)
<b>Beginning Net Assets</b>	\$ 21,591,139	\$ 21,893,358	\$ 15,511,344	\$ 15,617,095	\$ 15,250,226
<b>Prior Period Adjustment</b>	\$ -	\$ (8,235,358) <sup>(2)</sup>	\$ -	\$ -	\$ -
<b>Ending Net Assets</b>	<u>\$ 21,893,358</u>	<u>\$ 15,511,344</u>	<u>\$ 15,617,095</u>	<u>\$ 15,250,226</u>	<u>\$ 14,315,883</u>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted in the 2002 fiscal year.

(2) The prior period adjustment is from the District implementing GASB Statement No. 75 for Other Post-Employment Benefits.

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE DISTRICT  
AND ITS ECONOMY**

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## WESTWOOD INDEPENDENT SCHOOL DISTRICT

### General and Economic Information

Westwood Independent School District (the "District") is located in Anderson County, Texas. The District's current estimated population is 11,722.

Anderson County (the "County") is an east Texas county located between the Trinity and Neches Rivers. U.S. Highways 287, 79 and 84 provide major transportation routes through the County. The estimated population of the County is 57,922.

Source: Texas Municipal Report for Westwood ISD and Anderson County.

### Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2010	1,698
2011	1,722
2012	1,717
2013	1,619
2014	1,603
2015	1,596
2016	1,610
2017	1,600
2018	1,561
2019	1,518
2020	1,514
2021	1,352
Current	1,332

### District Staff

Teachers	111
Auxiliary Personnel	68
Teachers' Aides & Secretaries	64
Administrators	14
Other Professional Staff	<u>21</u>
Total	278

### Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>
Westwood Primary School	PK-2	342
Westwood Elementary School	3-6	384
Westwood Jr High School	7-8	206
Westwood High School	9-12	400

### Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Wal-Mart Stores	Retail Store	1,111
Sanderson Farms Inc.	Meat Products	950
Acid & Cementing Services	Oil Field Services	50
Ben E. Keith	Food/Beverage Distribution	50
Atmos Energy	Utilities Service	35
Oncor Electric Delivery Co. LLC	Electric Utility/Power Plant	30
McCoys Building	Building Materials	25

### Unemployment Rates

	November <u>2019</u>	November <u>2020</u>	November <u>2021</u>
Anderson County	2.9%	5.8%	4.1%
State of Texas	3.4%	6.9%	4.5%

Source: Texas Workforce Commission.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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February 9, 2022

**WESTWOOD INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022  
DATED AS OF JANUARY 15, 2022  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$35,570,000**

**AS BOND COUNSEL FOR THE CUSHING INDEPENDENT SCHOOL DISTRICT** (the *District*) in connection with the issuance of the bonds described above (the *Bonds*), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) one of the executed Bonds (*Bond No. T-1*), and (iii) the District's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the *Code*). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the Federal Tax Certificate of the District and covenants set forth in the order adopted by the District to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service



on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the *Service*); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and general laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. 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.

Respectfully,

**APPENDIX D**

**AUDITED FINANCIAL REPORT  
FISCAL YEAR ENDED AUGUST 31, 2021**

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WESTWOOD INDEPENDENT SCHOOL DISTRICT  
Westwood, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2021

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## INTRODUCTORY SECTION

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
CERTIFICATE OF BOARD  
August 31, 2021

Westwood Independent School District  
Name of School District

Anderson  
County

001-908  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved \_\_\_\_\_ disapproved for the year ended August 31, 2021, at a meeting of the Board of Trustees of such school district on the 10<sup>th</sup> day of January, 2022.

Mike Kelly  
Signature of Board Secretary

Carolyn J. Booker  
Signature of Board President

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

## FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Westwood Independent School District  
Palestine, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, fiduciary funds, proprietary funds, and the aggregate remaining fund information of Westwood Independent School District ("the District"), as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, fiduciary funds, proprietary funds, and the aggregate remaining fund information of the District as of August 31, 2021, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Lufkin, Texas  
January 10, 2022

  
CERTIFIED PUBLIC ACCOUNTANTS

## WESTWOOD INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Westwood Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2021. Please read it in conjunction with our transmittal letter, the independent auditors' report, and the District's Basic Financial Statements.

### **USING THIS ANNUAL REPORT**

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

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

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

The combining statements for non-major funds in the Supplementary Information section contain additional information about the District's individual funds. The sections labeled Other Supplementary Information and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### **REPORTING THE DISTRICT AS A WHOLE**

#### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations is contained in the independent auditor's report. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, liabilities and deferred inflows and outflows at the end of the year while the Statement of Activities include all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we present the District's one kind of basic activity.

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

### **Reporting the District's Most Significant Funds**

#### ***Fund Financial Statements***

The fund financial statements, found in the independent auditor's report, provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants from the U.S. Department of Education. The District's administration establishes many other funds to help control and manage for particular purposes (such as campus activities).

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

## **The District as Trustee**

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net Position of the District's governmental activities decreased from \$15,250,226 to \$14,315,883. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$(482,697) at August 31, 2021. Although the district reports a deficit, the deficit is primarily due to reporting the Districts' proportionate share of the net OPEB liability. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis.

The District's total revenues were \$19,335,753. The cost of all governmental programs and services this year was \$20,270,096 compared to \$20,056,964 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through the District taxes was only \$5,051,233 because some of the consists were paid by those who directly benefitted from the programs \$237,986, by other governments and organizations that subsidized certain programs with grants and contributions \$3,799,953, by State equalization funding \$10,302,729, or by investment earning and other miscellaneous revenue \$(82,710). Miscellaneous revenues reflect a deficit due to disposal of fixed assets.

## **THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented on the balance sheet in the independent auditor's report) reported a combined fund balance of \$9,243,986, which is more than last year's total of \$8,582,604. Included in this year's total change in fund balance is an increase of \$15,084 in the District's general fund. The District's General Fund balance of \$8,510,495 reported in the audit differs from the General Fund's budgetary fund balances of \$8,306,861 reported in the budgetary comparison schedule. This is primarily because revenues totaled over \$182,000 less than budgeted and expenses ended under budget by more than \$386,000.

Over the course of the year, the Board of Trustees revised the District's budget several times primarily due to the actual revenue realized and costs incurred by the District being higher or lower than original estimates. The most significant budget amendments were for architectural services and bus purchases.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

At the end of the fiscal year 2021, the District had \$32,516,648 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The total accumulated depreciation was \$17,851,559. See Table III.

This year's major additions included a bus and a land purchase.

### **DEBT**

The District had no long-term debt during the year ended August 31, 2021.

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

The District's elected officials considered many factors when setting the fiscal-year 2020 budget and tax rates. One of those factors is the community the District serves. In the fiscal year 2020-2021 the taxable base of the District increased slightly compared to the previous fiscal year. The increase was due to a slightly increase in taxable property values in the area.

Other factors considered include the State property tax rules, which interact with the TEA Foundation revenue rules to calculate a substantial part of the funding received for the operation of most school functions.

The District's maintenance and operating property tax rate for the fiscal year ended August 31, 2021, was \$1.0527 per \$100 property valuation. For the next year ending August 31, 2022, the District has lowered the tax rate to \$1.0106 to align with state tax compression. The District's budgeted general fund expenditures for 2021-2022 are \$16,319,188.

The decrease in the budget, due to unforeseen circumstances due to COVID-19 causing a projected reduction in enrollment and funding, will have careful stewardship by the District's management and is expected to enable the District to keep its facilities in good operating from and yet maintain and adequate General fund balance for future District growth and maintenance needs, including unforeseen emergency situations that can occur.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Westwood Independent School District, P.O. Box 260, Palestine, Texas 75802.

**Table 1**  
**The District's Net Position**

	GOVERNMENTAL ACTIVITIES			PERCENTAGE CHANGE
	2021	2020	CHANGE	2021 - 2020
<i>Governmental Activities</i>				
Current and other assets	\$ 11 736 850	\$ 10 020 500	\$ 1 716 350	17.13
Capital and long-term assets	14 665 089	15 506 717	(841 628)	(5.43)
TOTAL ASSETS	26 401 939	25 527 217	874 722	3.43
Deferred outflows	3 437 049	3 499 662	(62 613)	(1.79)
TOTAL DEFERRED OUTFLOWS	3 437 049	3 499 662	(62 613)	(1.79)
Current liabilities	1 530 092	925 654	604 438	65.30
Long term liabilities	8 358 673	8 980 969	(622 296)	(6.93)
TOTAL LIABILITIES	9 888 765	9 906 623	(17 858)	(0.18)
Deferred inflows	5 634 340	4 278 550	1 355 790	31.69
TOTAL DEFERRED INFLOWS	5 634 340	4 278 550	1 355 790	31.69
Net Position:				
Invested in capital assets	14 665 089	15 506 717	(841 628)	(5.43)
Restricted	133 491	87 193	46 298	53.10
Unrestricted	(482 697)	(343 684)	(139 013)	40.45
TOTAL NET POSITION	\$ 14 315 883	\$ 15 250 226	\$ (934 343)	(6.13)

**Table 2**  
**Summary of Activities and Changes in Net Position**

	GOVERNMENTAL ACTIVITIES			PERCENTAGE CHANGE
	2021	2020	AMOUNT OF CHANGE	2021 - 2020
Revenues:				
Program Revenues:				
Charges for services	\$ 237 986	\$ 181 816	\$ 56 170	30.89
Operating grants and contributions	3 799 953	3 294 232	505 721	15.35
General Revenues:				
Property taxes	5 051 233	5 264 437	(213 204)	(4.05)
State aid - Formula grants	10 302 729	10 795 790	(493 061)	(4.57)
Investment earnings	26 562	120 430	(93 868)	(77.94)
Other general revenues	(82 710)	33 390	(116 100)	(347.71)
TOTAL REVENUES/CONTRIBUTIONS	19 335 753	19 690 095	(354 342)	(1.80)
Expenses:				
Instruction	9 640 970	9 661 076	(20 106)	(0.21)
Instructional resources and media services	164 792	154 722	10 070	6.51
Curriculum and staff development	594 492	580 071	14 421	2.49
Instructional leadership	70 606	5 900	64 706	1 096.71
School leadership	1 315 042	1 532 516	(217 474)	(14.19)
Guidance, counseling, and evaluation services	370 710	380 311	(9 601)	(2.52)
Health services	198 975	156 958	42 017	26.77
Student transportation	1 002 221	937 270	64 951	6.93
Food services	1 018 589	1 082 089	(63 500)	(5.87)
Co-curricular/extracurricular activities	1 288 300	1 289 279	(979)	(0.08)
General admission	907 877	861 600	46 277	5.37
Plant maintenance and operations	2 139 102	1 977 245	161 857	8.19
Security and monitoring services	20 439	27 642	(7 203)	(26.06)
Data processing services	646 542	624 685	21 857	3.50
Community services	215 870	229 437	(13 567)	(5.91)
Capital outlay	61 563	19 000	42 563	224.02
Payments to shared service arrangements	513 722	438 830	74 892	17.07
Other intergovernmental charges	100 284	98 333	1 951	1.98
TOTAL EXPENSES	20 270 096	20 056 964	213 132	1.06
CHANGE IN NET POSITION	(934 343)	(366 869)	(567 474)	154.68
Beginning net position	15 250 226	15 617 095	(366 869)	(2.35)
ENDING NET POSITION	\$ 14 315 883	\$ 15 250 226	\$ (934 343)	(6.13)



**Table 3**  
**Summary of the District's Capital Assets**

	GOVERNMENTAL ACTIVITIES			PERCENTAGE CHANGE
	2021	2020	CHANGE	2021 - 2020
<i>Governmental Activities</i>				
Land	\$ 1 119 847	\$ 1 019 978	\$ 99 869	9.79
Buildings and improvements	24 933 229	25 965 232	(1 032 003)	(3.97)
Equipment	4 160 739	3 723 266	437 473	11.75
Vehicles	2 302 833	2 099 869	202 964	9.67
TOTAL GOVERNMENTAL ACTIVITIES	32 516 648	32 808 345	(291 697)	(0.89)
Less accumulated depreciation	(17 851 559)	(17 301 628)	(549 931)	3.18
NET CAPITAL ASSETS	\$ 14 665 089	\$ 15 506 717	\$ (841 628)	(5.43)

## BASIC FINANCIAL STATEMENTS

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
August 31, 2021

EXHIBIT A-1

DATA CONTROL CODES		1 GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalents	\$ 9 590 306
1220	Taxes receivable	494 175
1230	Allowance for uncollectible taxes	(24 709)
1240	Due from other governments	1 639 424
1290	Other receivables	37 654
	Capital Assets:	
1510	Land	1 119 847
1520	Building, net	11 722 035
1530	Furniture and equipment, net	1 823 207
1000	TOTAL ASSETS	<u>26 401 939</u>
	DEFERRED OUTFLOWS	
	Deferred outflows related to pension	1 676 252
	Deferred outflows related to OPEB	1 760 797
1700	TOTAL DEFERRED OUTFLOWS	<u>3 437 049</u>
	LIABILITIES	
	Current Liabilities:	
2110	Accounts payable	797 958
2150	Accrued liabilities	32 551
2160	Accrued wages payable	699 583
	Noncurrent Liabilities:	
2540	Net pension liability	3 755 588
2545	Net OPEB liability	4 603 085
2000	TOTAL LIABILITIES	<u>9 888 765</u>
	DEFERRED INFLOWS	
	Deferred inflows: Pension	812 018
	Deferred inflows: OPEB	3 890 102
	Unavailable revenue	932 220
2600	TOTAL DEFERRED INFLOWS	<u>5 634 340</u>
	NET POSITION	
3200	Net investment in capital assets	14 665 089
	Restricted for:	
3820	Federal and state programs	133 491
3900	Unrestricted	(482 697)
3000	TOTAL NET POSITION	<u>\$ 14 315 883</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2021

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 EXPENSES	3 PROGRAM REVENUES		4 OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES
			CHARGES FOR SERVICES			
	Governmental Activities:					
11	Instruction	\$ 9 640 970	\$ 90 686	\$	2 303 832	\$ (7 246 452)
12	Instruction resources and media services	164 792	-		-	(164 792)
13	Curriculum and staff development	594 492	-		214 397	(380 095)
21	Instructional leadership	70 606	-		4 742	(65 864)
23	School leadership	1 315 042	-		138 391	(1 176 651)
31	Guidance, counseling, and evaluation services	370 710	-		35 940	(334 770)
33	Health services	198 975	-		6 682	(192 293)
34	Student (pupil) transportation	1 002 221	-		48 346	(953 875)
35	Food services	1 018 589	29 406		884 336	(104 847)
36	Extracurricular activities	1 288 300	43 873		37 748	(1 206 679)
41	General administration	907 877	74 021		37 710	(796 146)
51	Plant maintenance and operations	2 139 102	-		62 827	(2 076 275)
52	Security and monitoring services	20 439	-		3 040	(17 399)
53	Data processing services	646 542	-		21 962	(624 580)
61	Community service	215 870	-		-	(215 870)
81	Capital outlay	61 563	-		-	(61 563)
93	Payments for shared service arrangements	513 722	-		-	(513 722)
99	Other intergovernmental charges	100 284	-		-	(100 284)
TG	TOTAL GOVERNMENTAL ACTIVITIES	\$ 20 270 096	\$ 237 986	\$	3 799 953	(16 232 157)
	General Revenues:					
MT	Property taxes, levied for general purposes					5 051 233
GC	Grants and contributions not restricted					10 302 729
IE	Investment earnings					26 562
MI	Miscellaneous local and intermediate revenue					(82 710)
TR	TOTAL GENERAL REVENUES					15 297 814
CN	CHANGE IN NET POSITION					(934 343)
NB	Net position - Beginning					15 250 226
NE	NET POSITION - ENDING					\$ 14 315 883

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
August 31, 2021

EXHIBIT C-1

DATA CONTROL CODES		10	60	98	
		GENERAL FUND	CAPITAL PROJECTS FUND	OTHER GOVERN- MENTAL	TOTAL GOVERN- MENTAL FUNDS
	ASSETS				
1110	Cash and cash equivalents	\$ 8 650 742	\$ 600 000	\$ 160 565	\$ 9 411 307
1220	Property taxes - Delinquent	494 175	-	-	494 175
1230	Allowance for uncollectible taxes	(24 709)	-	-	(24 709)
1240	Due from other governments	716 969	-	922 455	1 639 424
1260	Due from other funds	845 310	-	-	845 310
1290	Other receivables	37 355	-	299	37 654
1000	TOTAL ASSETS	<u>\$ 10 719 842</u>	<u>\$ 600 000</u>	<u>\$ 1 083 319</u>	<u>\$ 12 403 161</u>
	LIABILITIES				
	Liabilities:				
2110	Accounts payable	\$ 641 277	\$ -	\$ 58 234	\$ 699 511
2150	Other accrued expenses	32 551	-	-	32 551
2160	Accrued wages payable	603 299	-	96 284	699 583
2170	Due to other funds	-	-	795 310	795 310
2000	TOTAL LIABILITIES	<u>1 277 127</u>	<u>-</u>	<u>949 828</u>	<u>2 226 955</u>
	DEFERRED INFLOWS				
	Unavailable revenue	932 220	-	-	932 220
2600	TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>2 209 347</u>	<u>-</u>	<u>949 828</u>	<u>3 159 175</u>
	FUND BALANCES				
	Restricted:				
3450	Federal/State grants	-	-	133 491	133 491
	Committed:				
3545	Other committed fund balances	-	600 000	-	600 000
3600	Unassigned	8 510 495	-	-	8 510 495
3000	TOTAL FUND BALANCE	<u>8 510 495</u>	<u>600 000</u>	<u>133 491</u>	<u>9 243 986</u>
4000	TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 10 719 842</u>	<u>\$ 600 000</u>	<u>\$ 1 083 319</u>	<u>\$ 12 403 161</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
August 31, 2021

EXHIBIT C-1R

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 9 243 986
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not reported in the funds.	14 665 089
The asset and liabilities of internal service funds are included in governmental activities in the SNP.	30 552
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(3 755 588)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	1 676 252
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(812 018)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(4 603 085)
Deferred Resources Outflows related to the OPEB plan are not reported in the funds.	1 760 797
Deferred Resources Inflows related to the OPEB plan are not reported in the funds.	<u>(3 890 102)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION	\$ <u>14 315 883</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2021

EXHIBIT C-2

		10		98	
DATA CONTROL CODES		GENERAL FUND	CAPITAL PROJECT FUND	OTHER GOVERN- MENTAL	TOTAL GOVERN- MENTAL FUNDS
	Revenues:				
5700	Local and intermediate sources	\$ 5 769 349	\$ -	\$ 154 533	\$ 5 923 882
5800	State program revenues	9 999 221	-	157 374	10 156 595
5900	Federal program revenues	183 834	-	2 713 722	2 897 556
5020	TOTAL REVENUES	<u>15 952 404</u>	<u>-</u>	<u>3 025 629</u>	<u>18 978 033</u>
	Expenditures:				
0011	Instruction	7 001 155	-	1 773 093	8 774 248
0012	Instructional resources and media services	164 792	-	-	164 792
0013	Curriculum and staff development	366 333	-	169 765	536 098
0021	Instructional leadership	64 401	-	-	64 401
0023	School leadership	1 052 069	-	160 350	1 212 419
0031	Guidance, counseling and evaluation services	323 756	-	218	323 974
0033	Health services	192 293	-	6 682	198 975
0034	Student transportation	912 901	-	9 835	922 736
0035	Food services	351	-	954 348	954 699
0036	Extracurricular activities	1 103 437	-	-	1 103 437
0041	General administration	812 379	-	-	812 379
0051	Plant maintenance and operations	1 851 464	-	-	1 851 464
0052	Security and monitoring services	17 399	-	3 040	20 439
0053	Data processing services	599 152	-	2 000	601 152
0081	Capital outlay	161 432	-	-	161 432
0093	Payment to fiscal agent/member districts of the SSA	513 722	-	-	513 722
0099	Other intergovernmental charges	100 284	-	-	100 284
6030	TOTAL EXPENDITURES	<u>15 237 320</u>	<u>-</u>	<u>3 079 331</u>	<u>18 316 651</u>
1100	EXCESS/(DEFICIT) REVENUE OVER (UNDER) EXPENDITURES	<u>715 084</u>	<u>-</u>	<u>(53 702)</u>	<u>661 382</u>
	Other Financing Sources and (Uses):				
7915	Transfer in	-	600 000	100 000	700 000
8911	Transfer out	<u>(700 000)</u>	<u>-</u>	<u>-</u>	<u>(700 000)</u>
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>(700 000)</u>	<u>600 000</u>	<u>100 000</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	<u>15 084</u>	<u>600 000</u>	<u>46 298</u>	<u>661 382</u>
0100	Fund balance - Beginning	<u>8 495 411</u>	<u>-</u>	<u>87 193</u>	<u>8 582 604</u>
3000	FUND BALANCE - ENDING	\$ <u>8 510 495</u>	\$ <u>600 000</u>	\$ <u>133 491</u>	\$ <u>9 243 986</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2021

EXHIBIT C-3

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 661 382
Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different Because:	
Capital outlays are not reported as expenses in the SOA.	351 136
Gain/(loss) on disposal of capital assets are not reported in the funds.	(181 797)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1 010 967)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(498 243)
The net revenue (expense) of internal service funds is reported with governmental activities.	30 552
The SOA recognizes the District's OPEB expense and the change in related deferred balances from the funds.	67 671
The SOA recognizes the District's pension expense and the change in related deferred balances from the funds.	<u>(354 077)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	\$ <u><u>(934 343)</u></u>

The accompanying notes are an integral part of this statement.



WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FUND NET POSITION  
PROPRIETARY FUNDS  
August 31, 2021

EXHIBIT D-1

	INTERNAL SERVICE FUND
	<u>          </u>
ASSETS	
Cash and cash equivalents	\$ 178 999
TOTAL ASSETS	<u>178 999</u>
LIABILITIES	
Accounts payable	98 447
Due to other funds	50 000
TOTAL LIABILITIES	<u>148 447</u>
NET POSITION	
Unrestricted net position	<u>30 552</u>
TOTAL NET POSITION	\$ <u>30 552</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
August 31, 2021

EXHIBIT D-2

	GOVERNMENTAL ACTIVITIES
	<u>INTERNAL</u>
	SERVICE
	<u>FUND</u>
Operating Revenues:	
Local and intermediate sources	\$ 108 903
TOTAL OPERATING REVENUES	<u>108 903</u>
Operating Expenses:	
Workers comp claims	34 882
Workers comp fixed costs	<u>43 469</u>
TOTAL OPERATING EXPENSES	<u>78 351</u>
CHANGE IN NET POSITION	30 552
Total net position - Beginning	<u>-</u>
TOTAL NET POSITION - ENDING	\$ <u><u>30 552</u></u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended August 31, 2021

EXHIBIT D-3

	GOVERNMENTAL ACTIVITIES
	<u>INTERNAL SERVICE FUND</u>
Cash Flows from Operating Activities:	
Cash receipts from Quasi interfund transfers	\$ 158 903
Refunds for claims adjustments	(57 290)
Cash payments for administration/reinsurance	<u>(43 469)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	<u>58 144</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 58 144
Cash and investments - Beginning	<u>120 855</u>
 CASH AND INVESTMENTS - ENDING	 \$ <u>178 999</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 30 552
Effect of Increases and Decrease in Current Assets and Liabilities:	
Increase (decrease) in interfund payables	50 000
Increase (decrease) in claims payable	<u>(22 408)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>58 144</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
August 31, 2021

EXHIBIT E-1

DATA CONTROL CODES			PRIVATE- PURPOSE TRUSTS	AGENCY FUNDS	
				STUDENT ACTIVITY	
1110	Cash and cash equivalents		\$ 4 693	\$ 36 819	
1000	TOTAL ASSETS		<u>4 693</u>	<u>36 819</u>	
	LIABILITIES				
2110	Accounts payable		1 000	-	
2000	TOTAL LIABILITIES		<u>1 000</u>	<u>-</u>	
	NET POSITION				
3800	Held in trust		3 693	36 819	
3000	TOTAL NET POSITION		<u>\$ 3 693</u>	<u>\$ 36 819</u>	

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS  
For the Year Ended August 31, 2021

EXHIBIT E-2

	PRIVATE- PURPOSE TRUSTS	AGENCY FUNDS  STUDENT ACTIVITY
REVENUES		
Local and intermediate sources	\$ 2 616	\$ 75 922
TOTAL REVENUES	<u>2 616</u>	<u>75 922</u>
EXPENSES		
Scholarship payments	<u>7 000</u>	<u>73 395</u>
TOTAL EXPENSES	<u>7 000</u>	<u>73 395</u>
CHANGE IN NET POSITION	(4 384)	2 527
Beginning net position	<u>8 077</u>	<u>34 292</u>
ENDING NET POSITION	<u>\$ 3 693</u>	<u>\$ 36 819</u>

The accompanying notes are an integral part of this statement.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2021

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. The Reporting Entity**

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and as a body corporate has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity."

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (primary government) and its component units. There are no component units reported at year end.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

**B. Basis of Presentation - Basis of Accounting**

**1. Basis of Presentation**

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

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

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

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

The District reports the following major governmental funds:

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for resources segregated for construction and maintenance of school buildings and equipment.

In addition, the District reports the following fund types:

Special Revenue Funds - The District accounts for resources restricted to or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Board can commit specific types of resources to specific purposes which are included as special revenue funds.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Internal Service Funds - These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements. The District utilizes this type of fund for workers compensation insurance and instructional device insurance.

Fiduciary Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private purpose (Orange and White scholarship) funds and agency funds. Scholarship funds accumulate contributions and other sources of revenue which are subsequently awarded to worthy recipients. Agency funds are purely custodial and thus do not involve measurement of results of operations.

2. **Measurement Focus - Basis of Accounting**

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

*Governmental Fund Financial Statements* - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital lease are reported as other financing sources.

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

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB Standards.

C. **Budgetary Data**

The official budget was prepared for adoption for the general, food service and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic 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.
2. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.
3. Prior to the expenditure of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the function level by personnel responsible for organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Financial Statement Amounts

*Cash and Investments*

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as a part of the District's cash and temporary investments.

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

*Fund Equity*

Governmental Funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

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

Restricted fund balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance - represents amounts that can only be used for specific purposes imposed by a formal action of the district's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance - represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance - represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

*Capital Assets*

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

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

ASSET CLASS	ESTIMATED USEFUL LIVES
Land improvements	15
Buildings	50
Building improvements	15
Vehicles (other than buses)	5
Buses	10
Computer equipment	5
Office and other equipment	7

Land and construction in progress are not depreciated.

E. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions and other post-employment benefits on the government-wide Statement of Net Position and overpayments of formula funds from TEA. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources.



WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. See additional disclosure on Note 13.

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

G. Interfund Activities

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

H. Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave accrues at various rates established by the State and adopted by the Board of Trustees. Sick leave does not vest but accumulates and is recorded as an expenditure as it is paid.

I. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, 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.

J. 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 expenses, 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 term. There are no investments as this pay-as-you-go plan and all cash is held in a cash account.

K. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from these estimates.

L. Data Control Codes

Data control codes refer to the account code structure prescribed by the Agency in the *Guide*. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

M. Accounting System

In accordance with Texas Education Code, Chapter 44, Subchapter A, the District adopted and implemented an accounting system which at least meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The District's accounting system uses codes and the code structure presented in the accounting code section of the *Guide*. Mandatory codes are utilized in the form provided in that section.

N. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

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

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 2 - DEPOSITS AND INVESTMENTS**

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

**CASH DEPOSITS**

At August 31, 2021, the carrying amount of the District's deposits was \$9,631,818, and the bank balance was \$10,045,867. The District's cash deposits during the year ended August 31, 2021, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**INVESTMENTS**

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

Investment Accounting Policy

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

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

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

The District's investments at August 31, 2021 are shown below:

Investment or Investment Type	Weighted Average Maturity (Days)	Fair Value	Credit Rating
First Public/Lone Star Investment Pool:			AAAm
Government Overnight Fund	45	\$ 1 091 024	AAA
Corporate Overnight Fund	52	5 812 477	AAA
TOTAL REPORTING ENTITY		\$ 6 903 501	

**ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS**

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at August 31, 2021 and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2021, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED**

c. Concentration of Credit Risk

District's investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from overconcentration of assets.

d. Interest Rate Risk

In accordance with the District's investment policy, investments are made in a manner that ensures the preservation of capital in the overall portfolio.

e. Foreign Currency Risk

As of August 31, 2021, there are no foreign currency investments in the District's portfolio.

**NOTE 3 - PROPERTY TAXES**

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowance for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the District to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting these criteria may not be canceled if litigation concerning these taxes is pending.

The District levied taxes on property within the District at \$1.0527 to fund general operations. The rates were levied on property assessed totaling \$516,342,537.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activities during the year were as follows:

	BEGINNING BALANCES	INCREASES	DECREASES	TRANSFERS	ENDING BALANCES
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 1 019 978	\$ 99 869	\$ -	\$ -	\$ 1 119 847
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	1 019 978	99 869	-	-	1 119 847
Capital Assets Being Depreciated:					
Buildings and improvements	25 965 232	-	(13 313)	(1 018 690)	24 933 229
Equipment	3 723 266	75 338	(132 917)	495 052	4 160 739
Vehicles	2 099 869	175 929	(496 603)	523 638	2 302 833
TOTAL CAPITAL ASSETS BEING DEPRECIATED	31 788 367	251 267	(642 833)	-	31 396 801
Less Accumulated Depreciation for:					
Buildings and improvements	(13 448 643)	(566 652)	2 130	801 971	(13 211 194)
Equipment	(1 460 371)	(264 997)	54 434	(1 644 741)	(3 315 675)
Vehicles	(2 392 614)	(179 318)	404 472	842 770	(1 324 690)
TOTAL ACCUMULATED DEPRECIATION	(17 301 628)	(1 010 967)	461 036	-	(17 851 559)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	14 486 739	(759 700)	(181 797)	-	13 545 242
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 15 506 717	\$ (659 831)	\$ (181 797)	\$ -	\$ 14 665 089

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 147 453
School leadership	535
Student (pupil) transportation	179 845
Food services	30 700
Cocurricular/extracurricular activities	158 259
General administration	2 691
Plant maintenance and operations	258 958
Data processing	16 656
Community services	215 870
TOTAL DEPRECIATION EXPENSE	\$ 1 010 967

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 5 - COMMITMENTS UNDER OPERATING LEASES**

Westwood ISD entered into an operating lease agreement for copiers. Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2021, as follows:

YEAR ENDED AUGUST 31		TOTAL
2022	\$	12 075
2023		2 871
TOTAL MINIMUM RENTALS	\$	14 946
Rental expenditures in fiscal year 2021	\$	18 798

**NOTE 6 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year ended August 31, 2021, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**NOTE 7 - OTHER INFORMATION**

Defined Benefit Pension Plan

**Plan Description:**

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

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

**Pension Plan Fiduciary Net Position:**

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

**Benefits Provided:**

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

**Contributions:**

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

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2019 and 2020.

	CONTRIBUTION RATES	
	2020	2021
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Employer Contributions - 2021	\$	315 011
Member Contributions - 2021	\$	773 807
NECE On-behalf Contributions - 2020	\$	622 446

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

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

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

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

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

**Actuarial Assumptions:**

The total pension liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

**Discount Rate:**

The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2020 are summarized below:

ASSET CLASS	TARGET ALLOCATION*	LONG-TERM EXPECTED GEOMETRIC REAL RATE OF RETURN	EXPECTED CONTRIBUTION TO LONG-TERM PORTFOLIO RETURNS**
<b>Global Equity</b>			
U.S.	18.0%	5.70%	1.04%
Non-U.S. Developed	13.0%	6.90%	0.90%
Emerging Markets	9.0%	8.95%	0.80%
Directional Hedge Funds	4.0%	3.53%	0.14%
Private Equity	13.0%	10.18%	1.32%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	1.11%	0.12%
Absolute Return	0.0%	- %	- %
Stable Value Hedge Funds	4.0%	3.09%	0.12%
Cash	1.0%	(0.30)%	- %
<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	0.70%	0.02%
Real Assets	16.0%	5.21%	0.73%
Energy and Natural Resources	3.0%	7.48%	0.37%
Commodities	0.0%	- %	- %
<b>Risk Parity</b>			
Risk Parity	5.0%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag**			(0.79)%
<b>Total</b>	<u>100.0%</u>		<u>7.25%</u>

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

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

For the fiscal year ended August 31, 2020, the annual money-weighted rate of return on pension plan investments was 7.25 percent. The annual money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate Sensitivity Analysis:**

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

	1% DECREASE IN DISCOUNT RATE (6.25%)	DISCOUNT RATE (7.25%)	1% INCREASE IN DISCOUNT RATE (8.25%)
District proportionate share of the net pension liability	\$ 5 791 049	\$ 3 755 588	\$ 2 101 820

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

At August 31, 2021, the District reported a liability of \$3,755,588 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 3 755 588
State's proportionate share that is associated with the District	8 079 681
<b>TOTAL</b>	<u>\$ 11 835 269</u>

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

The net pension liability was measured as of August 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At August 31, 2020 the District's proportion of the collective net pension liability was 0.0070% which was a decrease of 0.0003% from its proportion measured as of August 31, 2019.

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

The total pension liability as of August 31, 2020 was developed using a roll-forward method from the August 31, 2019 valuation.

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2019.

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

The discount rate remained unchanged at 7.25 percent.

For the year ended August 31, 2021, the District recognized pension expense of \$971,806 and revenue of \$971,806 for support provided by the State.

At August 31, 2021, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 6 857	\$ 104 808
Changes in actuarial assumptions	871 430	370 526
Difference between projected and actual investment earnings	167 302	91 273
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	315 652	245 411
Contributions paid to TRS subsequent to the measurement date	315 011	-
TOTAL	<u>\$ 1 676 252</u>	<u>\$ 812 018</u>

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

YEAR ENDED AUGUST 31,	PENSION EXPENSE AMOUNT
2022	\$ 219 301
2023	\$ 184 477
2024	\$ 157 409
2025	\$ 51 325
2026	\$ (57 391)
Thereafter	\$ (5 898)

**D. Defined Other Post-Employment Benefit Plan**

**Plan Description:**

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

**OPEB Plan Fiduciary Net Position:**

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling 512.542.6592.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

**Benefits Provided:**

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

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

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

<b>TRS-Care Monthly for Retirees</b>			
January 1, 2021 - December 31, 2021			
	<b>Medicare</b>		<b>Non-Medicare</b>
Retiree*	\$	135	\$ 200
Retiree and Spouse		529	689
Retiree* and Children		468	408
Retiree and Family		1 620	999

\* or surviving spouse

**Contributions:**

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 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. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2020</u>	<u>2021</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Employer Contributions - 2021	\$	92 389
Member Contributions - 2021	\$	64 843
NECE On-behalf Contributions - 2020	\$	123 671

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



WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

**Actuarial Assumptions:**

The total OPEB liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

**Actuarial Methods and Assumptions:**

<b>Valuation Date</b>	August 31, 2020
<b>Methods and Assumptions:</b>	
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.33% as of August 31, 2020
Demographic Assumptions	Based on the experience study performed for the Teachers Retirement System of Texas of the period ending August 31, 2019.
Mortality Assumption	The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2019 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection, the ultimate improvement rates from the most recently published projection scale ("U-MP").
Healthcare Trend Rates	Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and initial medical trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year medical trend for Medicare retirees (107.74%) reflects the anticipated return of the Health Insurer Fee (HIF) in 2021.
Election Rates	Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 9 years.
Aging Factors	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Expenses	Based on plan specific experience. Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.

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

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

**Discount Rate:**

A single discount rate of 2.33% was used to measure the total OPEB liability. There was a change of 0.03% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Discount Rate Sensitivity Analysis:**

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.33%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.33%)	Current Single Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
District's proportionate share of the Net OPEB Liability	\$ 5 523 691	\$ 4 603 085	\$ 3 875 938

The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 4.5% rate is used.

	1% Decrease in Healthcare Trend Rate (3.5%)	Current Single Healthcare Trend Rate (4.5%)	1% Increase in Healthcare Trend Rate (5.5%)
District's proportionate share of the Net OPEB Liability	\$ 3 760 130	\$ 4 603 085	\$ 5 725 781

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

**OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs:**

At August 31, 2021, the District reported a liability of 4,603,085 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provide to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 4 603 085
State's proportionate share that is associated with District	6 185 442
TOTAL	<u>\$ 10 788 527</u>

The Net OPEB Liability was measured as of August 31, 2020 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At August 31, 2020, the employer's proportion of the collective Net OPEB Liability was 0.0121% which is an increase of 0.0011% from measurement at August 31, 2019.

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

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

1. The discount rate changed from 2.63 percent as of August 31, 2019 to 2.33 percent as of August 31, 2020. This change increased the TOL.
2. The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
3. The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
4. The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
5. Change of Benefit Terms Since the Prior Measurement Date - There were no changes in benefit terms since the prior measurement date.

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

For the year ended August 31, 2021, the District recognized OPEB expense of \$(42,949) and revenue of \$(42,949) for support provided by the State.

At August 31, 2021, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 241 016	\$ 2 106 607
Changes in actuarial assumptions	283 915	1 264 031
Difference between projected and actual investment earnings	1 590	94
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1 141 887	519 370
Contributions paid to TRS subsequent to the measurement date	92 389	-
TOTAL	<u>\$ 1 760 797</u>	<u>\$ 3 890 102</u>

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 7 - OTHER INFORMATION - CONTINUED**

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

YEAR ENDED AUGUST 31,	OPEB EXPENSE AMOUNT
2022	\$ (384 599)
2023	\$ (384 799)
2024	\$ (384 913)
2025	\$ (384 882)
2026	\$ (261 932)
Thereafter	\$ (420 569)

The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care received payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submissions by reporting entities for the month of May. For the fiscal years ended August 31, 2021, 2020 and 2019, the subsidy payments received by TRS-Care on behalf of the District were \$44,504, \$43,080 and \$36,020, respectively.

**NOTE 8 - LITIGATION**

The District does not appear to be involved in any litigation as of August 31, 2021.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2021 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 10 - JOINT VENTURE SHARED SERVICE ARRANGEMENT**

The District participates in a shared service arrangement for special education services with five other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$513,722.

**NOTE 11 - WORKERS COMPENSATION COVERAGE**

The District joined together with other school districts in the East Texas area to form the East Texas Educational Insurance Association, a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. Total workers' compensation claims paid amounted to \$14,758 for current year claims and \$42,531 for claims incurred in prior years. When and if other schools in the Association exceed their annual loss fund maximums, the District will be required to pay a percentage share of the excess.

A reconciliation of changes in the liability for claims for the current and prior fiscal periods is presented below:

	YEAR ENDED AUGUST 31, 2021
Unpaid claims at September 1	\$ 120 855
Incurred claims (including IBNR)	34 881
Total payments	(57 289)
TOTAL UNPAID CLAIMS AT AUGUST 31	\$ 98 447

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
August 31, 2021

**NOTE 12 - LOCAL AND INTERMEDIATE REVENUE SOURCES**

During the year the District received revenue from local and intermediate sources consisting of the following:

	GENERAL	OTHER FUNDS	TOTAL
Property taxes	\$ 5 549 476	\$ -	\$ 5 549 476
Investment income	26 562	-	26 562
Food service income	-	29 406	29 406
Tuition and fees	55 804	-	55 804
Gifts and bequests	11 525	108 149	119 674
Extracurricular activities	43 873	-	43 873
Miscellaneous	82 109	16 978	99 087
TOTAL	<u>\$ 5 769 349</u>	<u>\$ 154 533</u>	<u>\$ 5 923 882</u>

**NOTE 13 - INTERFUND BALANCES AND ACTIVITIES**

*Interfund Receivables and Payables*

Interfund receivables and payables consists of the following at year end:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT	REASON
General Fund	Other Governmental Funds	\$ 795 310	Short-Term Loans
General Fund	Proprietary Fund	50 000	Short-Term Loans
TOTAL		<u>\$ 845 310</u>	

**NOTE 14 - SUBSEQUENT EVENTS**

The District's management has evaluated subsequent events through January 11, 2021, the date which the financial statements were available for use.

A novel strain of coronavirus (COVID-19) was spread to the United States of America in January and February 2020. The World Health Organization declared the outbreak to constitute a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our students, employees and vendors all of which are uncertain and cannot be predicted. As of the date these financial statements are issued, COVID-19 had not materially affected results of operations in 2021. However, the impact of response efforts on future operations cannot be predicted.

#### REQUIRED SUPPLEMENTARY INFORMATION

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

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2021

EXHIBIT G-1

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	\$ 5 566 700	\$ 5 569 900	\$ 5 769 349	\$ 199 449
5800	State program revenues	10 485 371	10 485 371	9 999 221	(486 150)
5900	Federal program revenue	-	79 816	183 834	104 018
5020	TOTAL REVENUES	<u>16 052 071</u>	<u>16 135 087</u>	<u>15 952 404</u>	<u>(182 683)</u>
	Expenditures:				
0011	Instruction	8 030 321	7 056 214	7 001 155	55 059
0012	Instructional resources and media services	175 418	169 480	164 792	4 688
0013	Curriculum and instructional staff development	360 964	371 605	366 333	5 272
0021	Instructional leadership	69 752	64 987	64 401	586
0023	School leadership	1 082 018	1 061 547	1 052 069	9 478
0031	Guidance, counseling and evaluation services	327 333	335 383	323 756	11 627
0033	Health services	161 885	196 036	192 293	3 743
0034	Student (pupil) transportation	823 023	931 077	912 901	18 176
0035	Food service	-	351	351	-
0036	Extracurricular activities	1 162 850	1 248 328	1 103 437	144 891
0041	General administration	764 004	815 504	812 379	3 125
0051	Plant maintenance and operations	1 930 818	1 954 718	1 851 464	103 254
0052	Security and monitoring services	23 348	23 348	17 399	5 949
0053	Data processing services	614 337	604 337	599 152	5 185
0081	Capital outlay	-	167 000	161 432	5 568
0093	Payments to fiscal agent/member districts of SSA	416 000	513 722	513 722	-
0099	Other intergovernmental charges	110 000	110 000	100 284	9 716
6030	TOTAL EXPENDITURES	<u>16 052 071</u>	<u>15 623 637</u>	<u>15 237 320</u>	<u>386 317</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>511 450</u>	<u>715 084</u>	<u>203 634</u>
	Other Financing Sources (Uses):				
8911	Transfers out	-	(700 000)	(700 000)	-
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(700 000)</u>	<u>(700 000)</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(188 550)</u>	<u>15 084</u>	<u>203 634</u>
0100	Fund balance - Beginning	<u>8 495 411</u>	<u>8 495 411</u>	<u>8 495 411</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 8 495 411</u>	<u>\$ 8 306 861</u>	<u>\$ 8 510 495</u>	<u>\$ 203 634</u>

See independent auditors' report.

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

	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0070%	0.0073%	0.0074%	0.0069%	0.0076%	0.0074%	0.0033%
District's proportionate share of the net pension liability (asset)	\$ 3 755 588	\$ 3 772 508	\$ 4 096 484	\$ 2 205 207	\$ 2 890 085	\$ 2 625 134	\$ 877 175
State's proportionate share of the net pension liability (asset) associated with the District	8 079 681	7 283 733	8 241 668	5 002 695	6 294 058	6 203 378	5 195 914
<b>TOTAL</b>	<b>\$ 11 835 269</b>	<b>\$ 11 056 241</b>	<b>\$ 12 338 152</b>	<b>\$ 7 207 902</b>	<b>\$ 9 184 143</b>	<b>\$ 8 828 512</b>	<b>\$ 6 073 089</b>
District's covered-employee payroll**	\$ 10 097 402	\$ 9 293 877	\$ 9 304 247	\$ 9 043 866	\$ 9 309 475	\$ 8 948 858	\$ 8 349 548
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	37.19%	40.59%	44.03%	24.38%	31.04%	29.33%	10.51%
Plan fiduciary net position as a percentage of the total pension liability	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

**Notes to Required Supplementary Information  
for the year ended August 31, 2021**

\* Only five years' worth of information are currently available.

\*\* As of the measurement date.

See independent auditors' report.

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

EXHIBIT G-3

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 315 011	\$ 289 466	\$ 249 889	\$ 244 478	\$ 226 039	\$ 242 997	\$ 219 889
Contributions in relation to the contractually required contribution	(315 011)	(289 466)	(249 889)	(244 478)	(226 039)	(242 997)	(219 889)
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current fiscal year TRS gross	\$ 10 080 478	\$ 10 097 402	\$ 9 293 877	\$ 9 304 247	\$ 9 043 866	\$ 9 309 475	\$ 8 948 858
Contributions as a percentage of covered employee payroll	3.12%	2.87%	2.69%	2.63%	2.50%	2.61%	2.46%

Note: Only four years' worth of information are currently available.



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

EXHIBIT G-4

	<b>District's Proportionate Share of Liability</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	
District's proportion of the OPEBL	0.0121%	0.0110%	0.0121%	0.0108%	
District's proportionate share of the OPEBL	\$ 4 603 085	\$ 5 208 461	\$ 6 034 352	\$ 4 696 237	
State share of the OPEBL associated with the District	6 185 442	6 920 880	7 875 689	7 035 198	
TOTAL	<u>\$ 10 788 527</u>	<u>\$ 12 129 341</u>	<u>\$ 13 910 041</u>	<u>\$ 11 731 435</u>	
District's covered-employee payroll* <i>Prior FY TRS Gross - September through August</i>	\$ 10 097 402	\$ 9 293 877	\$ 9 304 247	\$ 9 043 866	
Proportionate share/covered payroll	45.59%	56.04%	64.86%	51.93%	
Plan fiduciary net position/total OPEB liability	4.99%	2.66%	1.57%	91.00%	

	<b>District Contributions</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	
Contractually required contribution	\$ 92 389	\$ 92 036	\$ 78 635	\$ 77 488	
Contributions to required contribution	<u>(92 389)</u>	<u>(92 036)</u>	<u>(78 635)</u>	<u>(77 488)</u>	
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered-employee payroll	\$ 10 080 478	\$ 10 097 402	\$ 9 293 877	\$ 9 304 247	
Contributions to covered payroll	0.92%	0.91%	0.85%	0.83%	

Information provided by the Teacher Retirement System of Texas.

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

See independent auditors' report

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended August 31, 2021

A. Budget

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

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

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

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

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

B. Defined Benefit Pension Plan and OPEB Plan

See Notes 6 and 7 for changes of assumptions and benefit terms.

## OTHER SUPPLEMENTARY INFORMATION

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2021

DATA CONTROL CODES		211 ESEA TITLE 1 IMPROVING BASIC <u>SKILLS</u>	224 IDEA-B <u>FORMULA</u>	240 NATIONAL SCHOOL BREAKFAST/ LUNCH <u>PROGRAM</u>	244 CAREER AND TECH BASIC <u>GRANT</u>	255 TITLE II PART A TRAINING AND <u>RECRUITING</u>
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ -	\$ 60 929	\$ -	\$ 171
1240	Due from other governments	56 319	85 222	52 197	-	3 493
1290	Other receivables	<u>-</u>	<u>-</u>	<u>299</u>	<u>-</u>	<u>-</u>
1000	TOTAL ASSETS	\$ <u>56 319</u>	\$ <u>85 222</u>	\$ <u>113 425</u>	\$ <u>-</u>	\$ <u>3 664</u>
	LIABILITIES					
2110	Accounts payable	\$ -	\$ -	\$ 58 063	\$ -	\$ 171
2160	Accrued wages payable	27 353	4 720	21 336	-	-
2170	Due to other funds	<u>28 966</u>	<u>80 502</u>	<u>-</u>	<u>-</u>	<u>3 493</u>
2000	TOTAL LIABILITIES	<u>56 319</u>	<u>85 222</u>	<u>79 399</u>	<u>-</u>	<u>3 664</u>
	FUND BALANCES					
	Restricted Fund Balances:					
3450	Federal/State funds grant restrictions	<u>-</u>	<u>-</u>	<u>34 026</u>	<u>-</u>	<u>-</u>
3000	TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>34 026</u>	<u>-</u>	<u>-</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ <u>56 319</u>	\$ <u>85 222</u>	\$ <u>113 425</u>	\$ <u>-</u>	\$ <u>3 664</u>

See independent auditors' report.

266	270	276	277	281	282	289	397
ESSER GRANT	TITLE VI, PART B RURAL AND LOW INCOME	INSTRUCTIONAL CONTINUITY GRANT	LOCAL MATCH REIMBURSEMENT PROGRAM	ESSER II GRANT	ESSER III GRANT	TITLE IV PART A	TEXAS ADVANCED PLACEMENT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 293
-	-	-	-	624 593	97 591	3 040	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624 593</u>	<u>\$ 97 591</u>	<u>\$ 3 040</u>	<u>\$ 293</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	6 992	35 883	-	-
-	-	-	-	617 601	61 708	3 040	-
-	-	-	-	624 593	97 591	3 040	-
-	-	-	-	-	-	-	293
-	-	-	-	-	-	-	293
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624 593</u>	<u>\$ 97 591</u>	<u>\$ 3 040</u>	<u>\$ 293</u>

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WESTWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2021

EXHIBIT H-1  
Page 2 of 2

DATA CONTROL CODES		410	429	461	480	TOTAL NONMAJOR GOVERNMENTAL FUNDS
		TEXTBOOK ALLOTMENT	GROW YOUR OWN GRANT	INDIGENT MEAL FUND	VIRTUAL LEARNING	
	ASSETS					
1110	Cash and cash equivalents	\$ 9 714	\$ -	\$ 89 458	\$ -	\$ 160 565
1240	Due from other governments	-	-	-	-	922 455
1290	Other receivables	-	-	-	-	299
1000	TOTAL ASSETS	<u>\$ 9 714</u>	<u>\$ -</u>	<u>\$ 89 458</u>	<u>\$ -</u>	<u>\$ 1 083 319</u>
	LIABILITIES					
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 58 234
2160	Accrued wages payable	-	-	-	-	96 284
2170	Due to other funds	-	-	-	-	795 310
2000	TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>949 828</u>
	FUND BALANCES					
	Restricted Fund Balances:					
3450	Federal/State funds grant restrictions	<u>9 714</u>	<u>-</u>	<u>89 458</u>	<u>-</u>	<u>133 491</u>
3000	TOTAL FUND BALANCES	<u>9 714</u>	<u>-</u>	<u>89 458</u>	<u>-</u>	<u>133 491</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9 714</u>	<u>\$ -</u>	<u>\$ 89 458</u>	<u>\$ -</u>	<u>\$ 1 083 319</u>

See independent auditors' report.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2021

DATA CONTROL CODES		211 ESEA TITLE 1 IMPROVING BASIC SKILLS	224 IDEA-B FORMULA	240 NATIONAL SCHOOL BREAKFAST/ LUNCH PROGRAM	244 CAREER AND TECH BASIC GRANT	255 TITLE II PART A TRAINING AND RECRUITING
	Revenues:					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ 29 406	\$ -	\$ -
5800	State program revenues	-	-	14 954	-	46
5900	Federal program revenues	360 492	241 315	844 014	11 304	104 527
5020	TOTAL REVENUES	360 492	241 315	888 374	11 304	104 573
	Expenditures:					
0011	Instruction	237 956	241 315	-	11 304	20 941
0013	Curriculum and staff development	122 236	-	-	-	26 937
0023	School leadership	300	-	-	-	56 695
0031	Guidance, counseling and evaluation services	-	-	-	-	-
0033	Health services	-	-	-	-	-
0034	Student transportation	-	-	-	-	-
0035	Food services	-	-	954 348	-	-
0052	Security and monitoring services	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
2000	TOTAL EXPENDITURES	360 492	241 315	954 348	11 304	104 573
	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(65 974)	-	-
	Other Financing Sources (Uses):					
7900	Other financing sources	-	-	100 000	-	-
	TOTAL OTHER FINANCING SOURCES (USES)	-	-	100 000	-	-
1200	NET CHANGE IN FUND BALANCE	-	-	34 026	-	-
0100	Fund balance - Beginning	-	-	-	-	-
3000	ENDING FUND BALANCE	\$ -	\$ -	\$ 34 026	\$ -	\$ -

See independent auditors' report.



EXHIBIT H-2  
Page 1 of 2

266	270	276	277	281	282	289	397
ESSER GRANT	TITLE IV, PART B RURAL AND LOW INCOME	INSTRUCTIONAL CONTINUITY GRANT	LOCAL MATCH REIMBURSEMENT PROGRAM	ESSER II GRANT	ESSER III GRANT	TITLE IV PART A	TEXAS ADVANCED PLACEMENT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
<u>214 087</u>	<u>29 930</u>	<u>7 591</u>	<u>87 035</u>	<u>624 593</u>	<u>177 609</u>	<u>11 225</u>	<u>-</u>
<u>214 087</u>	<u>29 930</u>	<u>7 591</u>	<u>87 035</u>	<u>624 593</u>	<u>177 609</u>	<u>11 225</u>	<u>-</u>
214 087	29 930	7 591	87 035	624 593	146 544	7 967	-
-	-	-	-	-	11 181	-	-
-	-	-	-	-	3 367	-	-
-	-	-	-	-	-	218	-
-	-	-	-	-	6 682	-	-
-	-	-	-	-	9 835	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	3 040	-
-	-	-	-	-	-	-	-
<u>214 087</u>	<u>29 930</u>	<u>7 591</u>	<u>87 035</u>	<u>624 593</u>	<u>177 609</u>	<u>11 225</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	293
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293</u>

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WESTWOOD INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS - CONTINUED  
For the Year Ended August 31, 2021

EXHIBIT H-2  
Page 2 of 2

DATA CONTROL CODES		410	429	461	480	
		TEXTBOOK ALLOTMENT	GROW YOUR OWN GRANT	INDIGENT MEAL FUND	VIRTUAL LEARNING	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	Revenues:					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ 124 127	\$ 1 000	\$ 154 533
5800	State program revenues	132 963	9 411	-	-	157 374
5900	Federal program revenues	-	-	-	-	2 713 722
5020	TOTAL REVENUES	<u>132 963</u>	<u>9 411</u>	<u>124 127</u>	<u>1 000</u>	<u>3 025 629</u>
	Expenditures:					
0011	Instruction	143 830	-	-	-	1 773 093
0013	Curriculum and staff development	-	9 411	-	-	169 765
0023	School leadership	-	-	99 988	-	160 350
0031	Guidance, counseling, and evaluation services	-	-	-	-	218
0033	Health services	-	-	-	-	6 682
0034	Student transportation	-	-	-	-	9 835
0035	Food services	-	-	-	-	954 348
0052	Security and monitoring services	-	-	-	-	3 040
0053	Data processing services	-	-	-	2 000	2 000
2000	TOTAL EXPENDITURES	<u>143 830</u>	<u>9 411</u>	<u>99 988</u>	<u>2 000</u>	<u>3 079 331</u>
	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(10 867)</u>	<u>-</u>	<u>24 139</u>	<u>(1 000)</u>	<u>(53 702)</u>
	Other Financing Sources (Uses):					
7900	Other financing sources	-	-	-	-	100 000
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100 000</u>
1200	NET CHANGE IN FUND BALANCE	(10 867)	-	24 139	(1 000)	46 298
0100	Fund balance - Beginning	<u>20 581</u>	<u>-</u>	<u>65 319</u>	<u>1 000</u>	<u>87 193</u>
3000	ENDING FUND BALANCE	<u>9 714</u>	<u>\$ -</u>	<u>\$ 89 458</u>	<u>\$ -</u>	<u>\$ 133 491</u>

See independent auditors' report.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended August 31, 2021

LAST 10 YEARS	(1)	(2)	(3)	
	TAX RATES		ASSESSED/APPRaisal VALUE FOR SCHOOL TAX PURPOSES	
	MAINTENANCE	DEBT SERVICE		
2012 and prior years	Various	Various		Various
2013	1.170	-	\$	434 468 795
2014	1.170	-	\$	436 325 887
2015	1.170	-	\$	436 701 785
2016	1.170	-	\$	499 528 540
2017	1.170	-	\$	487 618 702
2018	1.170	-	\$	483 671 569
2019	1.170	-	\$	486 983 726
2020	1.0683	-	\$	494 363 194
2021 (School year under audit)	1.0527	-	\$	516 342 537
TOTALS				

See independent auditors' report.

## EXHIBIT J-1

(10) BEGINNING BALANCE 09/01/2020	(20) CURRENT PERIOD'S TOTAL LEVY	(31) MAINTENANCE TOTAL COLLECTED	(32) DEBT SERVICE COLLECTIONS	(40) ENTIRE PERIOD'S ADJUSTMENTS	(50) ENDING BALANCE 08/31/2021
\$ 149 690	\$ -	\$ 17 089	\$ -	\$ (5 946)	\$ 126 655
30 492	-	2 485	-	(151)	27 856
27 630	-	3 001	-	(178)	24 451
29 089	-	3 509	-	(207)	25 373
27 725	-	4 019	-	(204)	23 502
59 527	-	25 913	-	(400)	33 214
48 299	-	10 686	-	(208)	37 405
57 145	-	14 942	-	(2 162)	40 041
94 869	-	44 497	-	(5 195)	45 177
-	5 435 538	5 321 869	-	(3 168)	110 501
<u>\$ 524 466</u>	<u>\$ 5 435 538</u>	<u>\$ 5 448 010</u>	<u>\$ -</u>	<u>\$ (17 819)</u>	<u>\$ 494 175</u>

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM  
For the Year Ended August 31, 2021

EXHIBIT J-2

DATA CONTROL CODES		1	2	3	VARIANCE WITH FINAL BUDGET POSITIVE OR (NEGATIVE)
		BUDGETED AMOUNTS		ACTUAL AMOUNTS	
		ORIGINAL	FINAL		
	Revenues:				
5700	Local and intermediate sources	\$ 36 780	\$ 38 780	\$ 29 406	\$ (9 374)
5800	State program revenues	5 900	5 900	14 954	9 054
5900	Federal program revenue	1 051 096	1 051 096	844 014	(207 082)
5020	TOTAL REVENUES	1 093 776	1 095 776	888 374	(207 402)
	Expenditures:				
0035	Food service	1 087 422	1 089 422	954 348	135 074
6030	TOTAL EXPENDITURES	1 087 422	1 089 422	954 348	135 074
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6 354	6 354	(65 974)	(72 328)
	Other Financing Sources (Uses):				
	Other financing sources	-	50 000	100 000	50 000
	TOTAL OTHER FINANCING SOURCES (USES)	-	50 000	100 000	50 000
1200	NET CHANGE IN FUND BALANCES	6 354	56 354	34 026	(22 328)
0100	Fund balance - Beginning	-	-	-	-
3000	FUND BALANCE - ENDING	\$ 6 354	\$ 56 354	\$ 34 026	\$ (22 328)

See independent auditors' report.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
STATE SUPPLEMENTAL ALLOTMENT COMPLIANCE  
USE OF FUNDS REPORT  
For the Year Ended August 31, 2021

EXHIBIT J-4

DATA  
CONTROL  
CODES

RESPONSES

Section A: Compensatory Education Programs

Districts are required to use at least 55% of state compensatory education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.104.

AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?	Yes
AP3	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$ <u>1 477 519</u>
AP5	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30,34)	\$ <u>474 428</u>

Section B: Bilingual Education Programs

Districts are required to use at least 55% of bilingual education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.105.

AP8	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?	Yes
AP9	Does the district have written policies and procedures for its bilingual education program?	Yes
AP10	Total state allotment funds received for bilingual education programs during the district's fiscal year.	\$ <u>49 280</u>
AP12	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PICs 25 and 35)	\$ <u>26 513</u>

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

Board of Trustees  
Westwood Independent School District  
Palestine, Texas

Members of the Board of Trustees:

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 *Governing Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Westwood Independent School District (the District) as of and for the fiscal year ended August 31, 2021 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 10, 2022.

**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.

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

Our consideration of internal control 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

**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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lufkin, Texas  
January 10, 2022

  
CERTIFIED PUBLIC ACCOUNTANTS



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

Board of Trustees  
Westwood Independent School District  
Palestine, Texas

Members of the Board of Trustees:

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

We have audited Westwood 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, 2021. 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 Westwood Independent School District's compliance.

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

In our opinion, Westwood Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2021.

**Report on Internal Control Over Compliance**

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

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

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

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

Lufkin, Texas  
January 10, 2022

  
CERTIFIED PUBLIC ACCOUNTANTS

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended August 31, 2021

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

Material control over major programs:

Material weakness(es) identified?      Yes   X   No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?   X   Yes      No

B. Financial Statement Findings

NONE

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended August 31, 2021

None

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
For the Year Ended August 31, 2021

There were no audit findings; therefore, no corrective action plan was required

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2021

Exhibit K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	(2) FEDERAL CFDA NUMBER	(3) PASS THROUGH GRANTOR	(4) FEDERAL EXPENDITURES
U.S. Department of Education:			
Passed Through Texas Education Agency:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	20610101001908	\$ 360 492
*IDEA - Part B, Formula	84.027	206600010001902	241 315
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>601 807</u>
Career and Technical - Basic Grant	84.048	20420006001908	11 304
ESEA, Title VI, Part B - Rural and Low Income Program	84.358B	20696001001908	29 930
ESEA, Title II, Part A, Teacher Principal Training	84.367A	20694501001908	104 527
Title I, School Improvement Program (SIP)	84.377A	17610740001908	7 591
Title IV, Part A - Student Support and Enrichment	84.424A	20680101001908	11 225
Elementary and Secondary School Emergency Relief	84.425	2052100100908	214 087
ESSER II	84.425D	20521001001908	624 593
ESSER III	84.425D	21528001001908	177 609
TOTAL PASSED THROUGH TEXAS EDUCATION AGENCY			<u>1 180 886</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1 782 673</u>
U.S. Department of Agriculture:			
Passed Through Texas Department of Agriculture:			
**School Breakfast Program	10.553	71402001	196 682
**National School Lunch Program - Cash Assistance	10.555	71302001	580 552
TOTAL CHILD NUTRITION CLUSTER			<u>777 234</u>
Commodity Supplemental Food Program	10.565	71302001	66 780
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>844 014</u>
U.S. Department of Homeland Security:			
Passed Through Office of the Governor, Division of Emergency Management:			
Federal Emergency Management	97.036		18 366
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>18 366</u>
U.S. Department of Treasury:			
Passed Through City of Palestine:			
COVID Relief Funds of the CARES Act	21.019	N/A	21 544
Passed Through Anderson County:			
COVID Relief Funds of the CARES Act	21.019	N/A	87 035
TOTAL U.S. DEPARTMENT OF TREASURY			<u>108 579</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2 753 632</u>

\*Clustered program.

\*\*Clustered program.

The accompanying notes are an integral part of this schedule.

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2021

1. General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Westwood Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the preparation of, the general purpose financial statements. Special revenue funds are used to account for resources restricted to, or designed for, specific purposes by a grantor. Generally, unused balances are returned to the grantor at the close of the specific project period.

2. Basis of Accounting

The accounting and financial reporting treatment applied to Special Revenue funds is the current financial resource measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in fund balance. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available, and expenditures in the accounting period in which the liability is incurred, except for unmatured interest on long-term debt, which is recognized when matured, and certain compensated absences, pension liability, other post-employment benefits, and claims, which are recognized when the obligations are expected to be liquidated with expendable available resources. Grant funds are considered to be earned as soon as all eligibility requirements imposed by the provider are met and expenditures have been incurred, and, accordingly, when such funds are received in advance, they are recorded as deferred revenue until earned.

3. Availability of Funds

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the project period extended 30 days beyond the project period ending date.

4. Indirect Cost

The District does not use an indirect cost rate in federal programs.

5. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	\$ 2 753 632
General Fund - Federal Revenue:	
SHARS	<u>143 924</u>
TOTAL FEDERAL REVENUES PER EXHIBIT C-2	<u>\$ 2 897 556</u>

WESTWOOD INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REQUIRED RESPONSES TO SELECTED  
SCHOOL FIRST INDICATORS  
As of August 31, 2021

Exhibit L-1

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





Financial Advisory Services  
Provided By:

