

Rating: S&P: "AAA"
(See "RATING" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFICIAL STATEMENT
Dated: December 28, 2021

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds (defined below) 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.

\$35,500,000*

LONE OAK INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hunt and Rains Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

Dated Date: January 15, 2022

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

The Lone Oak Independent School District Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") are being issued pursuant to the Texas 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 the order ("Bond Order") to be adopted on January 5, 2022 by the Board of Trustees (the "Board") of the Lone Oak Independent School District (the "District"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date shown 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 within a stated maturity. Principal and interest 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) construct, renovate, improve and equip school facilities in the District; (ii) renovate, improve and equip Buffalo Stadium, and (iii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on and 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 any multiple 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. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS - Mandatory Sinking Fund Redemption").

MATURITY SCHEDULE
(On Inside Cover Page)

The Bonds are offered for delivery when, as and if issued, and received by the Underwriters 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., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 3, 2022.

HUNTINGTON CAPITAL MARKETS

PIPER SANDLER & CO.

**Preliminary, subject to change.*

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$35,500,000*
LONE OAK INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hunt and Rains Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

MATURITY SCHEDULE*
 BASE CUSIP NO: 542218⁽¹⁾

Maturity Date <u>2/15</u>	Principal Amount*	Interest Rate	Initial Yield	CUSIP Suffix No.⁽¹⁾
2023	\$640,000			
2024	810,000			
2025	520,000			
2026	530,000			
2027	530,000			
2028	540,000			
2029	550,000			
2030	580,000			
2031	665,000			
2032	670,000			
2033	680,000			
2034	715,000			
2035	1,005,000			
2036	1,290,000			
2037	1,320,000			
2038	1,345,000			
2039	1,380,000			
2040	1,415,000			
2041	1,450,000			
2042	1,485,000			
2043	1,525,000			
2044	1,560,000			
2045	1,600,000			
2046	1,645,000			
2047	1,695,000			
2048	1,750,000			
2049	1,810,000			
2050	1,870,000			
2051	1,930,000			
2052	1,995,000			

(Interest to accrue from the Dated Date)

**Preliminary, subject to change.*

⁽¹⁾ 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 Markets 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 Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

LONE OAK INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Justin Ramm, President	2016	2022	Medical Helicopter
Jeremy McClanahan, Vice President	2018	2024	Finance
Chris Moore, Secretary	2019	2023	Retired
Orville Gentry, Member	2013	2022	Retired
Nikki Haynes, Member	2021	2023	Nurse
Donald Isenburg, Member	2010	2022	Fireman
Clint Patterson, Member	2020	2023	Contracts

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Janee' Carter	Superintendent	18 Years	4 Years
Gary Sorrells	Director of Finance	7 Years	4 Years

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Rutherford, Taylor & Company, Greenville, Texas	Certified Public Accountants

For additional information, contact:

Janee' Carter
 Superintendent
 Lone Oak Independent School District
 8162 Hwy 69 South
 Lone Oak, Texas 75453
 (903) 662-5427

Brian Grubbs / Doug Whitt / Robert White
 SAMCO Capital Markets, Inc.
 5800 Granite Parkway, Suite 210
 Plano, Texas 75024
 (214) 765-1470
 (214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. 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 Texas Education Agency's ("TEA") and the District's undertakings 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 UNDERWRITERS 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 UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE 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 purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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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 the entire Official Statement.

The District	The Lone Oak Independent School District (the "District") is a political subdivision of the State of Texas located in Hunt and Rains Counties, 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.
The Bonds	The District's Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") are being issued in the principal amount of \$35,500,000 (preliminary, subject to change) pursuant to the Texas 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 the order (the "Bond Order") to be adopted on January 5, 2022 by the Board. Proceeds from the sale of the Bonds will be used to (i) construct, renovate, improve and equip school facilities in the District; (ii) renovate, improve and equip Buffalo Stadium, and (iii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose")
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	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.")
Redemption	The Bonds maturing on and 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 any multiple 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. (See "THE BONDS – Optional Redemption.") If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS – Mandatory Sinking Fund Redemption").
Permanent School Fund Guarantee	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, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's underlying, unenhanced rating, including the Bonds, is "A+" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is 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. (See "TAX 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.
Legal Opinion	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., Dallas, Texas, Bond Counsel.
Delivery	When issued, anticipated to occur on or about February 3, 2022.

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the Lone Oak Independent School District (the "District"), a political subdivision of the State of Texas located in Hunt and Rains Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2022 (the "Bonds").

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

There follows in this Official Statement descriptions of the Bonds and the order to be adopted by the Board of Trustees of the District (the "Board") on January 5, 2022 authorizing the issuance of the Bonds (the "Bond Order") 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 upon request by writing the Lone Oak Independent School District, 8162 Hwy 69 South, Lone Oak, Texas 75453 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 the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein 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-weeks average ADA is less than the ADA hold harmless projections (described below), the first two six-week attendance reporting periods for 2020-2021 will be excluded from the calculation of annual ADA and student 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 available for the third six-week attendance reporting period, but only for those districts that allowed on-campus instruction throughout the entire third six-week period, as further described below. The ADA hold harmless methodology will be identical to the methodology used for the first two six-week attendance reporting periods, except that the third six-week period will be examined independent of the first two six-week attendance reporting periods.

The ADA hold harmless protection was 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 \$35,500,000 (preliminary, subject to change) pursuant to the Texas Constitution and general laws of the State of Texas (the "State"), particularly Section 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 the Bond Order. Proceeds from the sale of the Bonds will be used to (i) construct, renovate, improve and equip school facilities in the District; (ii) renovate, improve and equip Buffalo Stadium, and (iii) pay the costs of issuing the Bonds.

General Description

The Bonds will be 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 is payable initially on August 15, 2022, and on each August 15 and February 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 stated 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 books 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 and interest of the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for any payment due on any Bond shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated office of 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 such a day. The 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 and 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 any multiple 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.

Mandatory Sinking Fund Redemption

If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order and as further set forth in the final Official Statement.

Notice of Redemption and DTC Notices

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. 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 THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, 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.

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

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 Bond 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 Bond 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.

Security

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. 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 State 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. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES" herein.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and McCall, Parkhurst & Horton L.L.P., Dallas, 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 Bond Order, the District has reserved the right to amend the Bond Order without the consent of any holder for the purpose of amending or supplementing the Bond 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 Bond Order that do not materially adversely affect the interests of the holders, (iv) qualify the Bond 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 Bond 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 Bond Order further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Bond Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders 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 or redemption premium, if any, 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 Bond Order for further provisions relating to the amendment thereof.

Defeasance

The Bond 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 Bond 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. At the time of adoption of the Bond Order, the Board may restrict such eligible securities and obligations as deemed appropriate. 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, and (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. 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 Bond 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 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	\$
Net Original Issue Reoffering Premium	
Accrued Interest on Bonds	
Total Sources of Funds	\$ _____
Uses	
Deposit to Construction Fund	\$
Costs of Issuance	
Underwriters' Discount	
Deposit to Interest and Sinking Fund	
Total Uses of Funds	\$ _____

REGISTERED OWNERS' REMEDIES

The Bond 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 Bond 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 Bond 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 Bond 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 Bond 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.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond 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 Bond 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 Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption notices 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 notices 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 stated maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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, Bond certificates are required to be printed and delivered.

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, Bond certificates will be printed and delivered to bond holders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriters believe to be reliable, but none of the District, the Financial Advisor or the Underwriters 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 Bond 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 Bond 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 Bond 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, trust company, financial institution 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 will be printed and delivered to the beneficial owners thereof and thereafter 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 mail, first class postage prepaid to the new registered owner. 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 for determining the party to whom the interest payable on a Bond 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.

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 Underwriters.

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

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

History and Purpose

The PSF supports the State's public school system in two major ways: distributions to the constitutionally established Available School Fund (the "ASF"), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be "permanent," and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the "Education Commissioner"), bonds properly issued by a school district are fully guaranteed by the PSF. See "The School District Bond Guarantee Program."

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Education Commissioner. On approval by the Education Commissioner, bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General (the "Attorney General") been requested to issue an opinion, with respect to its constitutional validity.

Audited financial information for the SBOE (as defined herein) financial portfolios of the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The State School Land Board's ("SLB") land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2020, filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively,

the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund

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

The Texas Constitution provides that the Fund shall be managed through the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the "Prudent Person Standard"). The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property (the on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is hired by and reports to the Education Commissioner. Moreover, although the Fund's Executive Administrator and the PSF staff at TEA implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund.

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), stating that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

The SBOE/PSF investment staff and the SBOE's investment consultant for the Fund are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants. See "2021 Legislation – SB 1232" for a discussion of proposed changes to the management of the Fund.

The SBOE contracts with a financial institution for custodial and securities lending services in addition to the performance measurement of the total return of the Fund's financial assets managed by the SBOE. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the employment and compensation options available to the management of the Fund.

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

² In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$875 million for the biennium.

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

State Fiscal Biennium	2008-09	2010-11	2012-13	2014-15	2016-17	2018-19	2020-21	2022-23
<u>SBOE Distribution Rate¹</u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

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

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

2021 Legislation - Senate Bill 1232

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

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

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

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

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

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

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

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

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

The bill amends provisions of the Texas Natural Resources Code (the “NRC”) that pertain to the authority of the SLB to manage public school land by limiting investments by the SLB to “real property holdings,” which are defined to mean direct or indirect

interests in real property located in the State or any interest in a joint venture whose primary purpose is the acquisition, development, holding, and disposing of real property located in the State. The bill excludes from the definition of “real property holdings” any interest in an “investment vehicle,” and requires SLB to transfer mineral revenues to the PSF Corporation monthly. The determination of whether to make a direct transfer to the ASF from the revenues of the land or other properties is presently made by SLB, and the decision as to whether to make a direct transfer to the ASF, and the amount of such transfer, is solely within the purview of the SLB. That authorization would continue after creation of the PSF Corporation and implementation of the proposed changes set forth in SB 1232.

Asset Allocation of Fund Portfolios

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in July 2020. The Fund’s Investment Policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

PSF Strategic Asset Allocations

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

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

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

Comparative Investment Schedule - PSF(SBOE)1

Fair Value (in millions) August 31, 2020 and 2019				
ASSET CLASS	August 31, 2020	August 31, 2019	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,005.8	\$1,645.8	\$ 360.0	21.9%
Domestic Large Cap	5,106.3	4,643.7	462.6	10.0%
Total Domestic Equity	7,112.1	6,289.5	822.6	13.1%

International Equity	6,380.9	5,676.3	704.6	12.4%
TOTAL EQUITY	13,493.0	11,965.8	1,527.2	12.8%
FIXED INCOME				
Domestic Fixed Income	4,232.6	4,575.2	(342.6)	-7.5%
U.S. Treasuries	918.7	-	918.7	N/A
Emerging Market Debt	2,450.7	2,410.4	40.3	1.7%
TOTAL FIXED INCOME	7,602.0	6,985.6	616.4	8.8%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,517.2	3,622.6	(105.4)	-2.9%
Real Estate	3,102.1	2,983.5	118.6	4.0%
Private Equity	4,761.5	3,872.8	888.7	22.9%
Risk Parity	1,164.9	2,557.6	(1,392.7)	-54.5%
Real Return	2,047.4	2,109.3	(61.9)	-2.9%
TOT ALT INVESTMENTS	14,593.1	15,145.8	(552.7)	-3.6%
UNALLOCATED CASH	122.9	163.3	(40.4)	-24.7%
TOTAL PSF(SBOE) INVESTMENTS				
	\$	\$	\$	
	35,811.0	34,260.5	1,550.5	4.5%

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

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

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously included in the PSF valuation but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the Liquid Account (shown above), which, when adopted, was expected to be fully implemented in the first calendar quarter of fiscal year 2022. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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

Liquid Account Fair Value at August 31, 2020¹

ASSET CLASS

Fixed Income

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

Total Liquid Account Investments \$4,050.6

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

Asset Class	As of 8-31-20	As of 8-31-19	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$1,164.0	\$1,667.6	\$(503.6)	-30.2%
Infrastructure	1,485.4	1,226.3	259.1	21.1%
Real Estate	1,174.8	1,033.6	141.2	13.7%

Internally Managed Direct				
Real Estate Investments	219.5	247.3	(27.8)	-11.2%
Total Discretionary				
Real Assets Investments	4,043.7	4,174.8	(131.1)	-3.1%
Dom. Equity Rec'd as In-Kind Distribution	0.9	1.3	(0.4)	-30.8%
Sovereign and Other Lands	408.6	372.3	36.3	9.8%
Mineral Interests	2,115.4	3,198.2	(1,082.8)	-33.9%
Cash at State Treasury ²	333.8	4,457.3	(4,123.5)	-92.5%
Total PSF(SLB)				
Investments	\$6,902.4	\$12,203.9	\$(5,301.5)	-43.4%

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

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

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events and the market impact of domestic and international climate change; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and, PSF operational limitations impacted by Texas law or legislative appropriation. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that may affect these factors. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

In the event that two or more payments are made from the PSF on behalf of a district, the Education Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

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

The Charter District Bond Guarantee Program

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

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

As of March 2021 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.83%. At August 19, 2021, there were 191 active open-enrollment charter schools in the State and there were 888 charter school campuses active under such charters (though as of such date, 53 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Education Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it

merely makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program, but is not reserved exclusively for the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” and “2017 Legislative Changes to the Charter District Bond Guarantee Program.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lessor of that imposed by State law (the “State Capacity Limit”) and that imposed by regulations and a notice issued by the IRS (the “IRS Limit”, with the limit in effect at any given time being the “Capacity Limit”). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

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

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

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

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

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds (the “Capacity Reserve”). The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5% and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP Capacity. The Education Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Education Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit

enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE is seeking changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the IRS will issue guidance that would increase the IRS Limit. The implementation of the Charter School Bond Guarantee Program has also increased the total amount of guaranteed bonds.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBG 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 CDBG 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 CDBG 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 CDBG 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 ⁽¹⁾	Market Value ⁽¹⁾
2016	\$30,128,037,903	\$37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020 ⁽²⁾	36,642,000,738	46,764,059,745

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

⁽²⁾ At August 31, 2020, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At July 31, 2021, the PSF had a book value of \$38,340,467,590 and a market value of \$53,232,714,384. July 31, 2021 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 ⁽²⁾

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

⁽²⁾ At August 31, 2020 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was

\$139,992,934,246, of which \$49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were \$90,336,680,245 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of July 31, 2021, 5.66% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of August 31, 2020 and July 31, 2021, the amount of outstanding bond guarantees represented 77.00% and 81.07%, respectively, of the Capacity Limit (which is currently the IRS Limit). July 31, 2021 data is unaudited and is subject to adjustment.

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

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

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

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2020¹

Portfolio	Return	Benchmark Return ²
Total PSF(SBOE) Portfolio	7.50%	8.54%
Domestic Large Cap Equities(SBOE)	22.37	21.94
Domestic Small/Mid Cap Equities(SBOE)	3.44	2.83
International Equities(SBOE)	8.80	8.31
Emerging Market Equity(SBOE)	15.84	14.49
Fixed Income(SBOE)	5.50	6.47
Absolute Return(SBOE)	4.43	7.19
Real Estate(SBOE)	2.93	1.26
Private Equity(SBOE)	4.63	4.85
Risk Parity(SBOE)	2.41	16.20
Real Return(SBOE)	3.33	2.85
Emerging Market Debt(SBOE)	1.67	1.55
Liquid Short-Term Fixed Income(SBOE)	2.78	3.40
Liquid Transition Cash Reserves(SBOE)	1.62	1.26

Liquid Combined(SBOE)	2.35	2.04
PSF(SLB)	-12.27	N/A

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. As of 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/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The TEA has agreed to provide the foregoing information only to the MSRB and to transmit such information electronically to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The information is available from the MSRB to the public without charge at www.emma.msrb.org.

Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in

accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning such entity and notices of material events relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in the Official Statement.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the 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 (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. 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 to 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 may take during future legislative sessions concerning the substance or the effect of any legislation that previously passed, or may be passed.

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 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 per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local

Revenue Levels in Excess of Entitlement”. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

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

A district’s “excess local 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 ration 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 district see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts.”

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 Hunt County Appraisal District and the Rains County Appraisal District (collectively, 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, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. 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 87th Texas Legislature did not vote to extend this program, which is now scheduled to expire by its terms effective December 31, 2022.

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

District and Taxpayer Remedies

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

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

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 13, 1972 under Chapter 45, Texas Education Code.

HB3 established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by school districts, such as the District, for the 2019 and subsequent tax years:

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as “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 in connection with the prior bond issues, but anticipates using \$30,000 of Tier One Funds to satisfy the \$0.50 test in connection with the issuance of the Bonds.

Public Hearing and Voter-Approval Tax Rate

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

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

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

The governing body of a school district generally cannot adopt a tax rate exceeding the school district’s Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date.

Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate

and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

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

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 Hunt and Rains Counties, Texas. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Hunt and Rains Counties, Texas.

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 does not collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Hunt County Tax Office.

The District does not allow split payments and 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 not 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's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2021, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note F – Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

In addition to its participation in TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note G. Other Post-Employment Benefit Plans" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

As a result of its participation in the Plan and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

During the year ended June 30, 2021, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$275 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note I – Risk Management - Health Care" of the Financial Statements.

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 S&P Global Ratings ("S&P") 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 "A+" by S&P. 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 rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of said company at the time the ratings are given, and the District makes no representations as to the appropriateness of any rating. The rating of the Bonds is not a recommendation to buy, sell or hold the Bonds, and there is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price and 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 approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel's opinion is attached hereto as Appendix C. The District expects to pay the fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds from the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, 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. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record", "Sources and Uses of Funds", and the third paragraph under "Notice of Redemption and DTC Notices", as to which no opinion will be expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof, as to which no opinion will be expressed), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings," as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Bond Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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., 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 to the District 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 with respect to 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 to the District is conditioned on compliance by the District with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the District 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. The 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 such 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 or refinanced with the proceeds of the Bonds or the Refunded Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District 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 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 principal 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, 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.

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.

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 Internal Revenue Service. 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.

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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), 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.

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

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under Texas 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 issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the Public Funds Investment Act (Chapter 2256, Government Code) as amended (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) 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 (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, 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 a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the 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; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or

national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) 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 Texas 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 October 31, 2021, the District had approximately \$80,693 (unaudited) invested in TexPool and (which operates as money market equivalents), approximately \$3,083,575 invested in Certificates of Deposit and approximately \$80,693 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 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 Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' 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. 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 its 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the 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 Market Access (EMMA) system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2022. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year, and the Financial Statements must be provided by June 30 of 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 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 a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of 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". Neither the Bonds nor the Bond Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii)

derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with Rule 15c2-12.

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 filed with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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.

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 an underwriter 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 provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District 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

During the past five years, to the best of its knowledge, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12 except that, for fiscal year ending 2017, the District inadvertently failed to file the required Annual Operating Report and Financial Statements. On December 28, 2021, the District filed the missing information along with a notice of late filing.

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.

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

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.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of \$_____. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed,

and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

Huntington Capital Markets is a trade name under which securities and investment banking products and services of Huntington Bancshares Incorporated and its subsidiaries, including Huntington Securities, Inc. ("HSI"), are marketed. Municipal sales, trading and underwriting services are provided through HSI, which is a broker-dealer registered with the Securities and Exchange Commission.

Piper Sandler & Co., one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

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

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 of 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 Bond Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Bond 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.

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

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Purchaser and be 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/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

LONE OAK INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2021/22 Total Valuation.....		\$ 674,315,957
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 33,234,682	
State Over-65 Exemption	5,320,319	
Disabled Homestead Exemption Loss	4,810,907	
Veterans Exemption Loss	791,700	
Veterans Surviving Spouse Exemption Loss	217,864	
Pollution Control Exemption Loss	730	
Solar/Wind Power Exemption Loss	474,260	
Productivity Loss	213,997,663	
Homestead Cap Loss	14,702,813	
	\$ 273,550,938	
2021/22 Certified Net Taxable Valuation ⁽³⁾		\$ 400,765,019

(1) Source: Hunt and Rains County Appraisal Districts Certified Values as of August 2021. The passage of a Texas constitutional amendment that was 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 the 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 \$20,979,118 in 2020/21.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ 6,320,000
Plus: The Bonds ⁽¹⁾		35,500,000
Total Unlimited Tax Bonds ⁽¹⁾		\$ 41,820,000
Less: Interest & Sinking Fund Balance (As of June 30, 2021) ⁽²⁾		(986,252)
Net General Obligation Debt		\$ 40,833,748
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	10.19%	
2022 Population Estimate ⁽⁴⁾	4,673	
Per Capita Net Taxable Valuation	\$85,762	
Per Capita Net G.O. Debt	\$8,738	

(1) Preliminary, subject to change.
 (2) Source: Lone Oak ISD Audited Financial Statement.
 (3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2021" in Appendix D for more information relative to the District's outstanding obligations.
 (4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Total ⁽⁵⁾	
			Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 177,651,211 ⁽¹⁾	\$ 1.5355 ⁽⁶⁾	95.12%	99.36%
2007/08	203,388,742 ⁽¹⁾	1.2440 ⁽⁶⁾	96.89%	100.62%
2008/09	236,741,364 ⁽¹⁾	1.2861	89.30%	89.45%
2009/10	249,136,967 ⁽¹⁾	1.2780	88.31%	96.99%
2010/11	225,205,437 ⁽¹⁾	1.3060	90.26%	95.35%
2011/12	211,492,661 ⁽¹⁾	1.3660	93.05%	101.72%
2012/13	214,657,669 ⁽¹⁾	1.3670	93.62%	99.20%
2013/14	210,123,047 ⁽¹⁾	1.3623	94.42%	102.23%
2014/15	219,532,013 ⁽¹⁾	1.3621	94.96%	101.18%
2015/16	211,705,302 ⁽¹⁾⁽³⁾	1.3190	95.32%	100.36%
2016/17	229,983,872 ⁽¹⁾⁽³⁾	1.3190	94.68%	105.88%
2017/18	247,468,756 ⁽¹⁾⁽³⁾	1.3000	95.62%	100.34%
2018/19	275,458,125 ⁽¹⁾⁽³⁾	1.3100	95.13%	100.32%
2019/20	313,464,894 ⁽¹⁾⁽³⁾	1.2493 ⁽⁷⁾	95.09%	98.69%
2020/21	350,961,238 ⁽¹⁾⁽³⁾	1.2068	95.82%	100.05%
2021/22	400,765,019 ⁽²⁾⁽³⁾	1.2220	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) Source: Hunt and Rains County Appraisal Districts Certified Values as of August 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: Lone Oak 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 the 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 Official Statement.

TAX RATE DISTRIBUTION

	2017/18	2018/19	2019/20 ⁽¹⁾	2020/21	2021/22
Maintenance & Operations	\$1.0400	\$1.0400	\$0.9700	\$0.8568	\$0.8720
Debt Service	\$0.2600	\$0.2700	\$0.2793	\$0.3500	\$0.3500
Total Tax Rate	\$1.3000	\$1.3100	\$1.2493	\$1.2068	\$1.2220

(1) 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 ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 177,651,211	\$ 9,980,000	5.62%
2007/08	203,388,742	12,300,000	6.05%
2008/09	236,741,364	12,090,000	5.11%
2009/10	249,136,967	11,830,000	4.75%
2010/11	225,205,437	11,555,000	5.13%
2011/12	211,492,661	11,265,000	5.33%
2012/13	214,657,669	10,925,000	5.09%
2013/14	210,123,047	10,550,000	5.02%
2014/15	219,532,013	10,280,000	4.68%
2015/16	211,705,302	10,010,000	4.73%
2016/17	229,983,872	9,895,000	4.30%
2017/18	247,468,756	9,485,000	3.83%
2018/19	275,458,125	9,060,000	3.29%
2019/20	313,464,894	8,620,000	2.75%
2020/21	350,961,238	6,680,000	1.90%
2021/22	400,765,019 ⁽³⁾	41,445,000 ⁽⁴⁾	10.34%

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(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 June 30, 2021" in Appendix D for more information.

(3) Source: Hunt and Rains County Appraisal Districts Certified Values as of August 2021.

(4) Preliminary, subject to change.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Hunt County	\$ 11,855,000	4.33%	\$ 513,322
Hunt Memorial Hospital District	39,730,000	4.34%	1,724,282
Rains County	-	0.85%	-
Total Overlapping Debt ⁽¹⁾			\$ 2,237,604
Lone Oak Independent School District ⁽²⁾			40,833,748
Total Direct & Overlapping Debt ⁽²⁾			\$ 43,071,352
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		10.75%	
Per Capita Direct & Overlapping Debt		\$9,217	

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

(2) Includes the Bonds. Preliminary, subject to change.

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 ⁽¹⁾**

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Greenville Lake & Water	Recreational	\$ 2,195,020	0.55%
Robert M. Caruth	Ranch	2,100,697	0.52%
Carl E. Jr. & Carolyn Thumann	Personal	1,913,535	0.48%
Villalobos Properties LLC	Ranch	1,823,730	0.46%
LCDM Investments LLC	Convenience Store	1,448,500	0.36%
Cumby Telephone Coop Inc.	Utility	1,220,200	0.30%
Chaun Tramayne Thompson	Personal	1,208,060	0.30%
Alliance-156 Partners LP	Residence	1,030,310	0.26%
Christopher Paxton	Personal	966,200	0.24%
Toby Haldeman	Personal	502,714	0.13%
		<u>\$ 14,408,966</u>	<u>3.60%</u>

2020/21 Top Ten Taxpayers ⁽²⁾

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Robert M. Caruth	Ranch	\$ 1,931,912	0.55%
Cumby Telephone Coop Inc.	Utility	1,868,260	0.53%
Carl E. Jr. & Carolyn Thumann	Personal	1,742,240	0.50%
Villalobos Properties LLC	Ranch	1,646,070	0.47%
Greenville Lake & Water	Recreational	1,520,170	0.43%
Chaun Tramayne Thompson	Personal	1,148,640	0.33%
Michael D. & Melissa T. Gantt	Personal	1,047,760	0.30%
Alliance-156 Partners LP	Residence	1,029,950	0.29%
LCDM Investments LLC	Convenience Store	1,029,650	0.29%
Ronald E. Deanna Pinckard	Personal	466,656	0.13%
		<u>\$ 13,431,308</u>	<u>3.83%</u>

2019/20 Top Ten Taxpayers ⁽²⁾

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>% of Net Valuation</u>
Villalobos Properties LLC	Ranch	\$ 1,917,850	0.61%
Cumby Telephone Coop Inc.	Utility	1,831,620	0.58%
Robert M. Caruth	Ranch	1,747,770	0.56%
Greenville Lake & Water	Utility	1,240,010	0.40%
Chaun Tramayne Thompson	Personal	1,161,140	0.37%
Michael D. & Melissa T. Gantt	Personal	1,107,610	0.35%
Alliance-156 Partners LP	Residence	911,660	0.29%
Tri Con Services Inc.	Commerical Land	845,060	0.27%
Oncor Electric Delivery Co.	Electric Utility	833,830	0.27%
Casita Capital LLC	Personal	827,160	0.26%
		<u>\$ 12,423,710</u>	<u>3.96%</u>

(1) Source: Hunt and Rains County Appraisal Districts.

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

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2021/22 ⁽¹⁾	% of Total	2020/21 ⁽²⁾	% of Total	2019/20 ⁽²⁾	% of Total
Real, Residential, Single-Family	\$ 147,923,121	21.94%	\$ 130,122,269	21.46%	\$ 116,665,071	22.32%
Real, Residential, Multi-Family	971,180	0.14%	444,080	0.07%	393,280	0.08%
Real, Vacant Lots/Tracts	9,935,439	1.47%	6,391,260	1.05%	6,326,339	1.21%
Real, Qualified Land & Improvements	231,122,977	34.28%	209,865,540	34.61%	168,899,729	32.31%
Real, Non-Qualified Land & Improvements	259,030,390	38.41%	234,601,901	38.69%	207,970,972	39.78%
Real, Commercial & Industrial	9,704,380	1.44%	8,735,970	1.44%	7,614,713	1.46%
Oil & Gas	26,530	0.00%	30,180	0.00%	33,205	0.01%
Utilities	5,098,655	0.76%	5,690,125	0.94%	5,807,811	1.11%
Tangible Personal, Commercial & Industrial	5,321,583	0.79%	5,434,999	0.90%	4,690,187	0.90%
Tangible Personal, Mobile Homes & Other	4,956,822	0.74%	4,605,483	0.76%	3,446,111	0.66%
Tangible Personal, Residential Inventory	224,880	0.03%	420,940	0.07%	934,107	0.18%
Tangible Personal, Special Inventory	-	0.00%	30,710	0.01%	9,710	0.00%
Total Appraised Value	\$ 674,315,957	100.00%	\$ 606,373,457	100.00%	\$ 522,791,235	100.00%
Less:						
Homestead Cap Adjustment	\$ 14,702,813		\$ 16,646,952		\$ 13,853,170	
Productivity Loss	213,997,663		194,763,479		153,547,855	
Exemptions ⁽³⁾	44,850,462		44,001,788		41,925,316	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 273,550,938</u>		<u>\$ 255,412,219</u>		<u>\$ 209,326,341</u>	
Net Taxable Assessed Valuation	\$ 400,765,019		\$ 350,961,238		\$ 313,464,894	

Category	2018/19 ⁽²⁾	% of Total	2017/18 ⁽²⁾	% of Total	2016/17 ⁽²⁾	% of Total
Real, Residential, Single-Family	\$ 98,106,701	21.26%	\$ 86,695,723	20.66%	\$ 79,722,816	21.07%
Real, Residential, Multi-Family	275,650	0.06%	236,598	0.06%	268,220	0.07%
Real, Vacant Lots/Tracts	6,309,132	1.37%	6,532,096	1.56%	6,861,025	1.81%
Real, Qualified Land & Improvements	154,538,431	33.49%	146,995,654	35.04%	125,109,940	33.06%
Real, Non-Qualified Land & Improvements	181,117,943	39.25%	159,049,503	37.91%	145,762,873	38.52%
Real, Commercial & Industrial	7,444,913	1.61%	6,150,580	1.47%	6,231,111	1.65%
Oil & Gas	33,220	0.01%	9,569	0.00%	-	0.00%
Utilities	5,163,834	1.12%	5,121,681	1.22%	4,496,099	1.19%
Tangible Personal, Commercial & Industrial	4,740,829	1.03%	5,708,621	1.36%	6,775,353	1.79%
Tangible Personal, Mobile Homes & Other	2,628,648	0.57%	1,995,638	0.48%	2,061,390	0.54%
Tangible Personal, Residential Inventory	1,035,255	0.22%	1,035,315	0.25%	1,136,666	0.30%
Tangible Personal, Special Inventory	20,360	0.00%	9,860	0.00%	2,560	0.00%
Total Appraised Value	\$ 461,414,916	100.00%	\$ 419,540,838	100.00%	\$ 378,428,053	100.00%
Less:						
Homestead Cap Adjustment	\$ 7,266,522		\$ 2,532,942		\$ 1,842,893	
Productivity Loss	139,235,236		131,995,113		109,643,901	
Exemptions ⁽³⁾	39,455,033		37,544,027		36,957,387	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 185,956,791</u>		<u>\$ 172,072,082</u>		<u>\$ 148,444,181</u>	
Net Taxable Assessed Valuation	\$ 275,458,125		\$ 247,468,756		\$ 229,983,872	

(1) Source: Hunt and Rains County Appraisal Districts Certified Values as of August 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 ⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Bonds	Plus:	Total ⁽²⁾	Bonds Unpaid At Year End	Percent of Principal Retired
		The Bonds ⁽²⁾			
2022	\$ 375,000.00	\$ -	\$ 375,000.00	\$ 41,445,000.00	0.90%
2023	395,000.00	640,000.00	1,035,000.00	40,410,000.00	3.37%
2024	410,000.00	810,000.00	1,220,000.00	39,190,000.00	6.29%
2025	435,000.00	520,000.00	955,000.00	38,235,000.00	8.57%
2026	455,000.00	530,000.00	985,000.00	37,250,000.00	10.93%
2027	485,000.00	530,000.00	1,015,000.00	36,235,000.00	13.35%
2028	505,000.00	540,000.00	1,045,000.00	35,190,000.00	15.85%
2029	525,000.00	550,000.00	1,075,000.00	34,115,000.00	18.42%
2030	520,000.00	580,000.00	1,100,000.00	33,015,000.00	21.05%
2031	465,000.00	665,000.00	1,130,000.00	31,885,000.00	23.76%
2032	485,000.00	670,000.00	1,155,000.00	30,730,000.00	26.52%
2033	510,000.00	680,000.00	1,190,000.00	29,540,000.00	29.36%
2034	505,000.00	715,000.00	1,220,000.00	28,320,000.00	32.28%
2035	250,000.00	1,005,000.00	1,255,000.00	27,065,000.00	35.28%
2036		1,290,000.00	1,290,000.00	25,775,000.00	38.37%
2037		1,320,000.00	1,320,000.00	24,455,000.00	41.52%
2038		1,345,000.00	1,345,000.00	23,110,000.00	44.74%
2039		1,380,000.00	1,380,000.00	21,730,000.00	48.04%
2040		1,415,000.00	1,415,000.00	20,315,000.00	51.42%
2041		1,450,000.00	1,450,000.00	18,865,000.00	54.89%
2042		1,485,000.00	1,485,000.00	17,380,000.00	58.44%
2043		1,525,000.00	1,525,000.00	15,855,000.00	62.09%
2044		1,560,000.00	1,560,000.00	14,295,000.00	65.82%
2045		1,600,000.00	1,600,000.00	12,695,000.00	69.64%
2046		1,645,000.00	1,645,000.00	11,050,000.00	73.58%
2047		1,695,000.00	1,695,000.00	9,355,000.00	77.63%
2048		1,750,000.00	1,750,000.00	7,605,000.00	81.81%
2049		1,810,000.00	1,810,000.00	5,795,000.00	86.14%
2050		1,870,000.00	1,870,000.00	3,925,000.00	90.61%
2051		1,930,000.00	1,930,000.00	1,995,000.00	95.23%
2052		1,995,000.00	1,995,000.00	-	100.00%
Total	<u>\$ 6,320,000.00</u>	<u>\$ 35,500,000.00</u>	<u>\$ 41,820,000.00</u>		

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) Preliminary, subject to change.

MAINTENANCE TAX DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Time Warrants, Series 2017		
	Principal	Interest	Total
2022	\$ 57,000.00	\$ 7,217.10	\$ 64,217.10
2023	58,000.00	5,832.00	63,832.00
2024	59,000.00	4,422.60	63,422.60
2025	61,000.00	2,988.90	63,988.90
2026	62,000.00	1,506.60	63,506.60
Total	<u>\$ 297,000.00</u>	<u>\$ 21,967.20</u>	<u>\$ 318,967.20</u>

(1) The District entered a loan agreement for a Promissory Note in the amount of \$500,000 on August 15, 2021 at an interest rate of 2.50%. Principal and interest of this note are payable in annual installments beginning on September 15th, 2022 and continuing on each September 15th thereafter through September 15, 2026. The principal and interest of this Note are payable from the District's ad valorem tax revenues.

DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus:			Combined Total ^{(1) (2) (3)}
		Principal	The Bonds ⁽²⁾		
			Interest	Total	
2022	\$ 585,912.50	\$ -	\$ 549,343.23	\$ 549,343.23	\$ 1,135,255.73
2023	592,112.50	640,000.00	934,531.26	1,574,531.26	2,166,643.76
2024	591,487.50	810,000.00	918,218.76	1,728,218.76	2,319,706.26
2025	600,237.50	520,000.00	903,256.26	1,423,256.26	2,023,493.76
2026	602,962.50	530,000.00	891,443.76	1,421,443.76	2,024,406.26
2027	614,887.50	530,000.00	879,518.76	1,409,518.76	2,024,406.26
2028	619,312.50	540,000.00	867,481.26	1,407,481.26	2,026,793.76
2029	623,012.50	550,000.00	855,218.76	1,405,218.76	2,028,231.26
2030	603,710.00	580,000.00	842,506.26	1,422,506.26	2,026,216.26
2031	533,950.00	665,000.00	828,500.01	1,493,500.01	2,027,450.01
2032	540,000.00	670,000.00	813,481.26	1,483,481.26	2,023,481.26
2033	549,843.76	680,000.00	798,293.76	1,478,293.76	2,028,137.52
2034	528,906.26	715,000.00	782,600.01	1,497,600.01	2,026,506.27
2035	258,125.00	1,005,000.00	763,250.01	1,768,250.01	2,026,375.01
2036	-	1,290,000.00	737,431.26	2,027,431.26	2,027,431.26
2037	-	1,320,000.00	708,068.76	2,028,068.76	2,028,068.76
2038	-	1,345,000.00	678,087.51	2,023,087.51	2,023,087.51
2039	-	1,380,000.00	646,568.76	2,026,568.76	2,026,568.76
2040	-	1,415,000.00	612,493.76	2,027,493.76	2,027,493.76
2041	-	1,450,000.00	576,681.26	2,026,681.26	2,026,681.26
2042	-	1,485,000.00	539,993.76	2,024,993.76	2,024,993.76
2043	-	1,525,000.00	502,368.76	2,027,368.76	2,027,368.76
2044	-	1,560,000.00	463,806.26	2,023,806.26	2,023,806.26
2045	-	1,600,000.00	423,306.26	2,023,306.26	2,023,306.26
2046	-	1,645,000.00	380,715.63	2,025,715.63	2,025,715.63
2047	-	1,695,000.00	331,581.25	2,026,581.25	2,026,581.25
2048	-	1,750,000.00	275,600.00	2,025,600.00	2,025,600.00
2049	-	1,810,000.00	217,750.00	2,027,750.00	2,027,750.00
2050	-	1,870,000.00	157,950.00	2,027,950.00	2,027,950.00
2051	-	1,930,000.00	96,200.00	2,026,200.00	2,026,200.00
2052	-	1,995,000.00	32,418.75	2,027,418.75	2,027,418.75
	<u>\$ 7,844,460.02</u>	<u>\$ 35,500,000.00</u>	<u>\$ 19,008,665.34</u>	<u>\$ 54,508,665.34</u>	<u>\$ 62,353,125.36</u>

(1) Debt service for the Bonds is illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends on June 30th.

(2) Preliminary, subject to change.

(3) 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 the Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 2,319,706.26
Projected State Financial Assistance ⁽²⁾	-
Projected Net Debt Service Requirement ^{(1) (2)}	\$ 2,319,706.26
 \$0.59063 Tax Rate @ 98% Collections Produces ⁽³⁾	 \$ 2,319,706.26
 2021/22 Certified Net Taxable Assessed Valuation	 \$ 400,765,019

(1) Includes the Bonds. Preliminary, subject to change.

(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 the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2021/22.

(3) The District will utilize State tier one funds to pass the Attorney General's 50-cent Test with respect to bonds issued for new construction purposes. As a result, the District must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the \$0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the \$0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts, "DEBT LIMITATIONS" and "TAX RATE LIMITATIONS."

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will have \$9,400,000 (preliminary, subject to change) 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 ⁽¹⁾

	Fiscal Year Ended June 30				
	2017	2018	2019	2020	2021
Beginning Fund Balance	\$ 3,925,669	\$ 4,116,518	\$ 4,664,146	\$ 4,435,757	\$ 4,455,783
Revenues:					
Local and Intermediate Sources	\$ 2,479,814	\$ 2,625,259	\$ 2,830,250	\$ 2,937,524	\$ 2,964,968
State Sources	7,045,738	6,905,756	7,120,611	8,569,045	7,684,014
Federal Sources & Other	132,358	318,527	288,484	205,606	241,384
Total Revenues	\$ 9,657,910	\$ 9,849,542	\$ 10,239,345	\$ 11,712,175	\$ 10,890,366
Expenditures:					
Instruction	\$ 5,185,780	\$ 5,178,753	\$ 5,517,706	\$ 6,258,523	\$ 6,137,489
Instructional Resources & Media Services	214,639	212,919	224,833	282,263	275,860
Curriculum & Instructional Staff Development	21,353	12,993	17,485	23,295	1,398
Instructional Leadership	36,717	33,757	36,818	39,373	40,344
School Leadership	628,379	723,548	807,148	815,647	840,031
Guidance, Counseling & Evaluation Services	297,908	279,721	296,746	300,614	334,547
Health Services	87,818	78,696	100,525	112,655	108,964
Student (Pupil) Transportation	232,897	567,258	638,093	355,533	271,528
Food Services	-	-	12,678	19,544	73,787
Cocurricular/Extracurricular Activities	527,476	492,681	440,607	1,146,390	472,696
General Administration	409,390	408,828	510,990	498,537	752,082
Plant Maintenance and Operations	1,161,045	1,027,283	1,414,873	1,245,680	1,132,558
Security and Monitoring Services	10,678	39,336	408,606	64,547	74,397
Data Processing Services	-	-	3,880	16,917	2,695
Debt Service - Principal on Long Term Debt	60,000	51,000	53,000	138,768	142,305
Debt Service - Interest on Long Term Debt	4,655	12,393	11,154	17,726	13,877
Bond Issuance Costs and Fees	20,000	-	-	-	-
Capital Outlay	949,881	-	-	-	-
Payments to Fiscal Agent/Member Districts of SSA	128,295	124,174	133,484	132,865	134,633
Other Intergovernmental Charges	65,531	68,652	71,876	76,408	80,053
Total Expenditures	\$ 10,042,442	\$ 9,311,992	\$ 10,700,502	\$ 11,545,285	\$ 10,889,244
Excess (Deficiency) of Revenues					
over Expenditures	\$ (384,532)	\$ 537,550	\$ (461,157)	\$ 166,890	\$ 1,122
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ 5,381	\$ 10,078	\$ -	\$ -	\$ -
Non-Current Loans	570,000	-	-	-	-
Issuance of Capital Leases	-	-	262,007	-	-
Transfers In	-	-	-	-	26,898
Transfers Out	-	-	(29,238)	(146,864)	(108,688)
Total Other Resources (Uses)	\$ 575,381	\$ 10,078	\$ 232,769	\$ (146,864)	\$ (81,790)
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	\$ 190,849	\$ 547,628	\$ (228,388)	\$ 20,026	\$ (80,668)
Ending Fund Balance	\$ 4,116,518	\$ 4,664,146	\$ 4,435,758	\$ 4,455,783	\$ 4,375,115

(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 the Official Statement.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended June 30				
	2017	2018	2019	2020	2021
Revenues:					
Program Revenues:					
Charges for Services	\$ 740,346	\$ 897,857	\$ 587,850	\$ 537,967	\$ 412,564
Operating Grants and Contributions	1,510,540	1,281,967	1,795,651	2,002,797	2,163,287
General Revenues:					
Property Taxes Levied for General Purposes	2,181,562	2,485,344	2,695,998	2,873,549	2,863,054
Property Taxes Levied for Debt Service	590,023	622,669	701,460	827,528	1,166,951
Investment Earnings	23,207	43,165	83,122	72,403	25,256
Grants and Contributions Not Restricted	6,639,752	8,003,837	6,942,465	7,983,721	7,130,405
Miscellaneous	85,871	46,989	23,684	5,346	26,719
	<u>\$11,771,301</u>	<u>\$13,381,828</u>	<u>\$12,830,230</u>	<u>\$14,303,311</u>	<u>\$13,788,236</u>
Expenses:					
Instruction	\$ 6,020,575	\$ 6,427,230	\$ 6,706,757	\$ 7,572,883	\$ 7,257,102
Instruction Resources & Media Services	249,911	229,239	263,143	332,962	311,608
Curriculum & Staff Development	28,791	20,431	23,845	30,176	2,456
Instructional Leadership	37,816	30,260	38,237	43,349	41,744
School Leadership	666,901	694,591	864,830	910,224	888,697
Guidance, Counseling & Evaluation Services	308,750	262,034	313,741	333,697	348,999
Health Services	129,622	110,990	110,349	125,118	115,348
Student Transportation	230,344	383,237	509,595	466,741	391,477
Food Service	566,512	556,230	644,918	719,975	754,600
Cocurricular/Extracurricular Activities	597,723	578,221	581,952	601,685	554,182
General Administration	699,908	632,660	810,557	822,765	963,759
Plant Maintenance & Operations	1,056,104	1,008,397	1,436,891	1,311,355	1,073,516
Security and Monitoring Services	10,678	39,336	408,606	64,547	74,397
Data Processing Services	-	-	3,880	16,917	2,695
Interest on Long-term Debt	314,163	347,008	337,849	297,674	244,459
Bond Issuance Costs and Fees	21,750	1,750	1,750	1,750	3,500
Payments for Shared Service Arrangements	128,295	124,174	133,484	132,865	134,633
Other Intergovernmental Charges	65,531	68,652	71,876	76,408	80,053
Total Expenditures	<u>\$11,133,374</u>	<u>\$11,514,440</u>	<u>\$13,262,260</u>	<u>\$13,861,091</u>	<u>\$13,243,225</u>
Change in Net Assets	\$ 637,927	\$ 1,867,388	\$ (432,030)	\$ 442,220	\$ 545,011
Beginning Net Assets	\$ 8,721,122	\$ 9,359,048	\$ 5,130,833	\$ 4,698,802	\$ 5,141,022
Prior Period Adjustment	\$ -	\$ (6,095,603) ⁽²⁾	\$ -	\$ -	\$ -
Ending Net Assets	<u>\$ 9,359,049</u>	<u>\$ 5,130,833</u>	<u>\$ 4,698,803</u>	<u>\$ 5,141,022</u>	<u>\$ 5,686,033</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**

**LONE OAK INDEPENDENT SCHOOL DISTRICT
General and Economic Information**

Lone Oak Independent School (the "District"), located in Hunt County with a small portion extending into Rains County, is a farming and ranching area that includes the City of Lone Oak, a retail center located near Lake Tawakoni on U.S. Highway 69. Local cotton gins serve area farmers. The District's current estimated population is approximately 4,673.

Hunt County (the "County") is a northeast Texas county, traversed by Interstate 30, U.S. Highways 67, 69 and 380, State Highways 24, 34, 224, and fifteen farm-to-market roads. Commercial and residential development along Lake Tawakoni contributes to the county's economy. The county seat is Greenville.

Source: Texas Municipal Report for Lone Oak ISD.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2011	902
2012	933
2013	921
2014	967
2015	957
2016	988
2017	1,031
2018	1,043
2019	1,005
2020	993
2021	971
Current	1,026

District Staff

Teachers	96
Teachers' Aides & Secretaries	38
Auxiliary Personnel	29
Administrators	10
Other	6
Total	<u>179</u>

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Lone Oak Elementary School	PK-5	443	600	2006	2008
Lone Oak Middle School	6-8	261	400	2000	NA
Lone Oak High School	9-12	322	425	1995	NA
AEP Campus (The Range)	5-12	-	32	1960	NA

Unemployment Rates

	<u>November 2019</u>	<u>November 2020</u>	<u>November 2021</u>
Hunt County	3.4%	5.9%	4.1%
State of Texas	3.4%	6.9%	4.5%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

**LONE OAK INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$35,500,000

AS BOND COUNSEL for the Lone Oak Independent School District (the "*Issuer*"), the issuer 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, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms 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 laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including executed Bond Numbered T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, 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 or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). 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.



IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed 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 Issuer 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. We express no opinion as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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 Issuer as the taxpayer. We observe that the Issuer 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 Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the 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 Issuer, 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 Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer'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 JUNE 30, 2021**

LONE OAK INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
3500 Joe Ramsey Blvd.
Greenville, Texas 75401
(903) 455-6252

LONE OAK INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

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CERTIFICATE OF BOARD

Lone Oak Independent School District
Name of School District


Hunt
County

116-906
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's report of the above named school district was reviewed and 7 approved/ 0 disapproved for the year ended June 30, 2021, at a meeting of the board of school trustees of such school district on NOVEMBER 15, 2021.



Signature of Board Secretary



Signature of Board President

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attached list if necessary):

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lone Oak Independent School District (District), as of and for the year ended June 30, 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, and the aggregate remaining fund information of the Lone Oak Independent School District as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules related to pension and other post-employment benefit liabilities 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 as a whole. The schedules identified in the table of contents as other supplementary information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used in the preparation of the basic financial statements. Such information has been subjected to the auditing procedures of the basic financial statement 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 the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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. 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 assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.



October 29, 2021
Greenville, Texas

RUTHERFORD,
TAYLOR &
COMPANY, P.C.
Certified Public Accountants

3500 Joe Ramsey Blvd.

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

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

Members of the Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lone Oak Independent School District (District), as of and for the year ended June 30, 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 October 29, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Report on Internal Control – Continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in blue ink that reads "Rutherford, Taylor & Company, P.C." The signature is written in a cursive, flowing style.

October 29, 2021
Greenville, Texas

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board

Report on Compliance for Each Major Federal Program

We have audited Lone Oak Independent School District's (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 year ended June 30, 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, contracts 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 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. Lone Oak ver, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

Internal Control over Compliance with the Uniform Guidance – Continued

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Rutherford, Taylor & Company, P.C." The signature is written in a cursive, flowing style.

October 29, 2021
Greenville, Texas

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2021

Summary of Auditor's Results (Section I)

Financial Statements –

Type of auditor's report issued	Unmodified Opinion
Internal Control over Financial Reporting: Material Weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Noncompliance material to the financial statements noted	None

Federal Awards –

Internal control over major programs: Material weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Type of Auditor's report issued on compliance for major programs	Unmodified Opinion
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	No
Identification of major programs	Elementary and Secondary Schools Emergency Relief (CFDA-84.425)
Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Entity qualified as a low risk auditee	No
Pass-through Entity	Texas Education Agency

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Financial Finding (Section II)

NONE

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Federal Award Findings and Questions Costs (Section III)

NONE

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Prior Year Findings (Section IV)

NONE

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

Corrective Action Plans (Section V)

NONE

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

This section of Lone Oak Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2021. Please read it in conjunction with the District's basic financial statements, which follow this section.

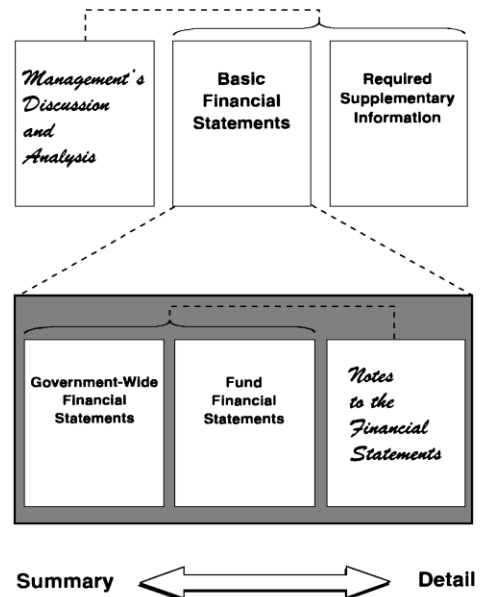
- The District's total combined net position was \$ 5,686,033 at June 30, 2021.
- During the period, the District's expenses were \$ 545,011 less than the \$ 13,788,236 generated in taxes and other revenue for Governmental Activities
- The total cost of the District's programs decreased 4.46% from last year, and no new programs were added this year.
- The District experienced disruption in traditional educational services due to state and national responses to the COVID-19 pandemic during the year.
- The General Fund reported a fund balance this period of \$ 4,375,115, a decrease of \$ 80,668 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the print shop.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position were an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base and student population.

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

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

- Proprietary funds—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.
- Fiduciary funds—The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$ 5,686,033 at June 30, 2021.

Lone Oak Independent School District's Net Position			Table A-1
	Governmental Activities		Total Percentage Change
	2021	2020	2020-2021
Assets:			
Cash and Investments	\$ 5,410,496	\$ 5,680,974	-4.76%
Other Current Assets	2,296,467	1,003,805	128.78%
Capital Assets less Accumulated Depreciation	13,430,618	13,847,084	-3.01%
Total Assets	\$ 21,137,581	\$ 20,531,863	2.95%
Deferred Net Outflows of Resources:			
Deferred Net Outflows of Resources	\$ 2,051,455	\$ 2,239,912	-8.41%
Total Deferred Net Outflows of Resources	\$ 2,051,455	\$ 2,239,912	-8.41%
Liabilities:			
Current Liabilities	\$ 1,683,954	\$ 1,253,886	34.30%
Long-term Liabilities	12,967,018	14,100,542	-8.04%
Total Liabilities	\$ 14,650,972	\$ 15,354,428	-4.58%
Deferred Net Inflows of Resources:			
Deferred Net Inflows of Resources	\$ 2,852,031	\$ 2,276,325	25.29%
Total Deferred Net Inflows of Resources	\$ 2,852,031	\$ 2,276,325	25.29%
Net Position:			
Net Investment in Capital Assets	\$ 5,981,473	\$ 5,881,088	1.71%
Restricted	1,102,225	443,796	148.36%
Unrestricted	(1,397,665)	(1,183,862)	-18.06%
Total Net Position	\$ 5,686,033	\$ 5,141,022	10.60%

Approximately \$ 1,008,658 of the District's restricted net position represent amounts restricted for debt retirement. Unrestricted net position represents resources available to fund the programs of the District in the coming year.

CHANGES IN NET POSITION

The District's total revenues were \$ 13,788,236. 29% of the District's revenue comes from local property taxes (See Table A-2). 68% of revenues come from state aid and federal grants while only 3% relates to charges for services and other sources.

The total cost of all programs and services was \$ 13,243,225. 57% of these costs were for instruction and instructional related student services.

The District's current tax collection rate (base tax only – current and delinquent) was 99.40%. The total collection rate (base tax and penalty and interest) was 101.35%.

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

GOVERNMENTAL ACTIVITIES

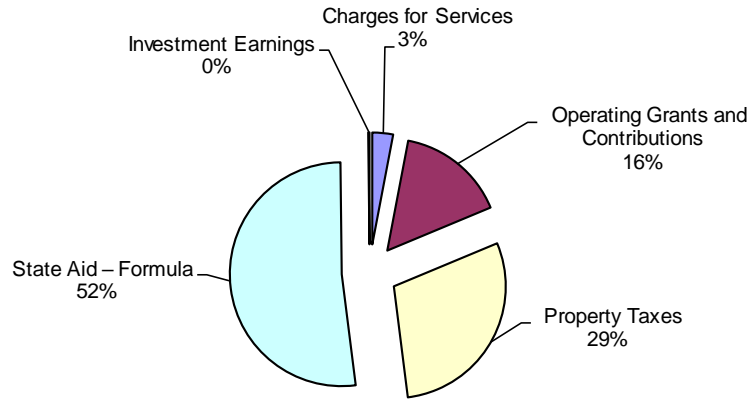
Table A-2

Changes in Lone Oak Independent School District's Net Position

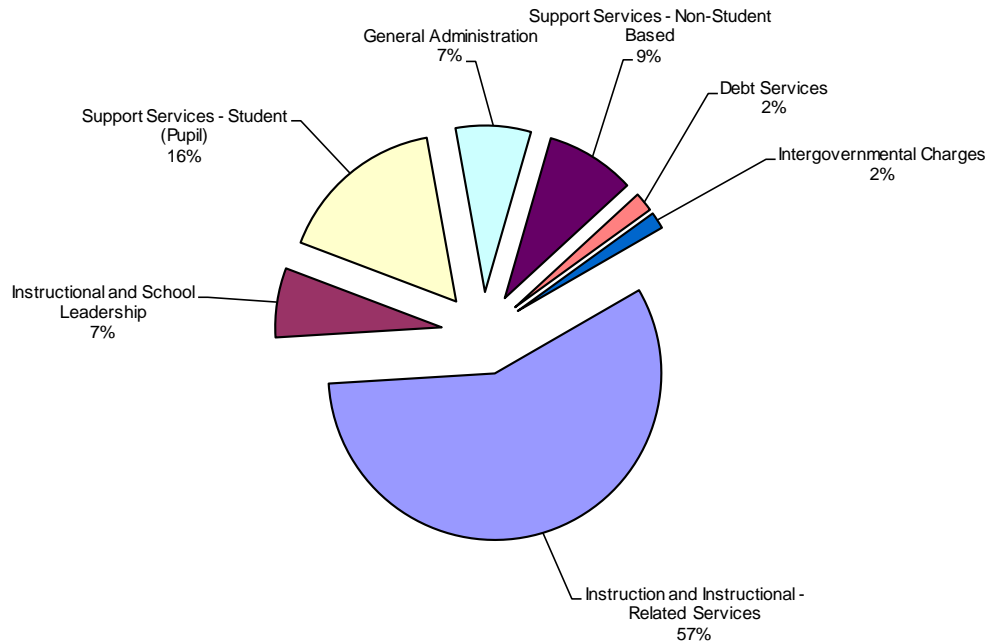
	Governmental Activities		Total Percentage Change
	2021	2020	2020-2021
Program Revenues:			
Charges for Services	\$ 412,564	\$ 537,967	-23.31%
Operating Grants and Contributions	2,163,287	2,002,797	8.01%
General Revenues:			
Property Taxes	4,030,005	3,701,077	8.89%
State Aid – Formula	7,130,405	7,983,721	-10.69%
Investment Earnings	25,256	72,403	-65.12%
Other	26,719	5,346	399.79%
Total Revenues	<u>\$ 13,788,236</u>	<u>\$ 14,303,311</u>	-3.60%
Expenses:			
Instruction	\$ 7,257,102	\$ 7,572,883	-4.17%
Instructional Resources and Media Services	311,608	332,962	-6.41%
Curriculum and Staff Development	2,456	30,176	-91.86%
Instructional Leadership	41,744	43,349	-3.70%
School Leadership	888,697	910,224	-2.37%
Guidance, Counseling and Evaluation Services	348,999	333,697	4.59%
Health Services	115,348	125,118	-7.81%
Student (Pupil) Transportation	391,477	466,741	-16.13%
Food Services	754,600	719,975	4.81%
Cocurricular /Extracurricular Activities	554,182	601,685	-7.89%
General Administration	963,759	822,765	17.14%
Plant Maintenance and Operations	1,073,516	1,311,355	-18.14%
Security and Monitoring Services	74,397	64,547	15.26%
Data Processing	2,695	16,917	-84.07%
Debt Service	247,959	299,424	-17.19%
Payments for Shared Service Arrangements	134,633	132,865	1.33%
Other Intergovernmental Charges	80,053	76,408	4.77%
Total Expenses	<u>\$ 13,243,225</u>	<u>\$ 13,861,091</u>	-4.46%
Excess (Deficiency) Before Other Resources, Uses and Transfers	<u>\$ 545,011</u>	<u>\$ 442,220</u>	-23.24%
Increase (Decrease) in Net Position	\$ 545,011	\$ 442,220	-23.24%
Net Position - Beginning (July 1)	<u>5,141,022</u>	<u>4,698,802</u>	9.41%
Net Position - Ending (June 30)	<u>\$ 5,686,033</u>	<u>\$ 5,141,022</u>	10.60%

LONE OAK INDEPENDENT SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2021

Sources of Revenue for Fiscal Year 2021 - See Table A-2



Functional Expenses for Fiscal Year 2021 - See Table A-2



LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

- Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.
- The cost of all governmental activities this year was \$ 13,243,225.
- However, the amount that our taxpayers paid for these activities through property taxes was \$ 4,030,005.
- Some of the costs were paid by those who directly benefited from the programs \$ 412,564, or
- By grants and contributions \$ 2,163,287.

Lone Oak Independent School District Net Cost of Selected District Functions							Table A-3	
	<u>Total Cost of Services</u>			%	<u>Net Cost of Services</u>			%
	2021	2020	Change	Change	2021	2020	Change	
Instruction	\$ 7,257,102	\$ 7,572,883		-4.17%	\$ 5,893,860	\$ 6,423,815		-8.25%
School Leadership	888,697	910,224		-2.37%	831,720	815,259		2.02%
General Administration	963,759	822,765		17.14%	698,075	509,066		37.13%
Plant Maintenance and Operations	1,073,516	1,311,355		-18.14%	936,754	1,206,691		-22.37%
Debt Service	247,959	299,424		-17.19%	201,574	194,234		3.78%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues in the governmental funds totaled \$ 13,627,173. This represents a decrease of \$ 199,026 from the prior period revenues of \$ 13,826,199. The change represents increased collections of local revenues including property taxes and reduced state aid related to enrollment and attendance.

Expenditures in the governmental funds totaled \$ 13,063,738 for the year. This represents a decrease of \$ 2,172,662 from the prior period expenditures of \$ 15,236,400. This decrease represents increases in overall operational costs throughout the district as well as capital outlay for buses. The District retired selected bonds early that increased the overall expenditures in the prior year totaling \$ 1,595,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its General Fund budget several times. With these adjustments, actual expenditures were \$ 110,756 below final budget amounts. The largest positive variance occurred in the area of plant maintenance.

General Fund resources available were \$ 109,634 less than the final budgeted amount. The unfavorable variance was due to reduced state aid due to decreased student enrollment and attendance.

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of year end, the District had invested \$ 26,269,602 in a broad range of capital assets, including land, equipment, buildings and vehicles (See Table A-4).

Lone Oak Independent School District's Capital Assets			Table A-4
	Governmental Activities		Total
	2021	2020	Percentage
			Change
			2020-2021
Land	\$ 397,333	\$ 397,333	0.00%
Buildings and Improvements	23,644,746	22,733,151	4.01%
Equipment	335,036	279,253	19.98%
Vehicles	1,892,487	1,825,001	3.70%
Totals at Historical Cost	\$ 26,269,602	\$ 25,234,738	4.10%
Total Accumulated Depreciation	(12,838,984)	(11,389,419)	12.73%
Net Capital Assets	<u>\$ 13,430,618</u>	<u>\$ 13,845,319</u>	-3.00%

DEBT

At year end, the District had \$ 7,066,934 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings.

Lone Oak Independent School District's Debt			Table A-5
	Governmental Activities		Total
	2021	2020	Percentage
			Change
			2020-2021
Bonds Payable	\$ 6,680,000	\$ 7,436,757	-10.18%
Other Debt Payable	386,934	529,239	26.89%
Total Debt Payable	<u>\$ 7,066,934</u>	<u>\$ 7,965,996</u>	-11.29%

LONE OAK INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

ECONOMIC FACTORS

The District's property valuation has rebounded from significant drops due to housing development bankruptcies and foreclosures. The assessed valuation has increased for the year and values continue to look positive. Local property tax rates are restricted by state statute, without local elections, to \$.97 for maintenance and operations. The State Legislature passed HB3 which included various changes to the property tax rate setting process thus limiting school district's opportunities for tax modifications and compressing the rates charged to taxpayers. The additional changes required under HB3 could impact the District's financial operations, including cash flow.

Student population has remained at a steady historical growth rate in the District. The economic outlook for the area is for growth to be relatively slow, as indicated by steady property value increases from the prior year. Housing has not expanded at the rate of other north central Texas communities. These economic conditions allow the District to maintain constant funding and staffing levels.

The State has increased funding levels for the 2020-2021 biennium, which will affect the revenue levels of the District. The level of funding per attendance credits increased significantly. With these increases, the state imposed requirements to spend at least 30% of the new funding on salaries to personnel with at least 75% of the 30% to be for teachers and other designated classes of employees. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong.

The global outbreak of coronavirus disease 2019 ("COVID-19") presents various global risks. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management of the District is actively monitoring the global situation on its financial condition, liquidity, operations, supplies, vendors, and industry. Given the evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects, if any, of the COVID-19 outbreak on its results of operations and financial condition.

The State, attempting to assist school district's financial stability, utilized additional federal funding received due to impact of the coronavirus pandemic. This additional funding source allocated to school districts was used to offset the attendance loss to the district's state funding. As such district expenditures have been reclassified as federal expenditures and fund balance can be affected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gary Sorrells, Business Manager for the District.

BASIC FINANCIAL STATEMENTS

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021

1

Data Control Codes	Governmental Activities
ASSETS	
1110 Cash and Investments	\$ 5,410,496
1225 Property Taxes Receivable, Net	445,416
1240 Due from Other Governments	1,808,184
1250 Accrued Interest	1,190
1290 Other Receivables, Net	30,965
1300 Inventories	10,712
Capital Assets:	
1510 Land	397,333
1520 Buildings and Improvements, Net	12,326,213
1530 Furniture and Equipment, Net	707,072
1000 Total Assets	\$ 21,137,581
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Outflows - Refundings	\$ 435,380
1705 Deferred Outflows - Pensions	934,511
1706 Deferred Outflows - OPEB	681,564
1700 Total Deferred Outflows of Resources	\$ 2,051,455
LIABILITIES	
2110 Accounts Payable	\$ 239,422
2140 Interest Payable	86,813
2165 Accrued Liabilities	960,259
2300 Unearned Revenue	397,460
Noncurrent Liabilities:	
2501 Due within one year	506,934
2502 Due in more than one year	6,942,211
2540 Net Pension Liability	2,418,724
2545 Net OPEB Liability	3,099,149
2000 Total Liabilities	\$ 14,650,972
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows - Pensions	\$ 392,296
2606 Deferred Inflows - OPEB	2,459,735
2600 Total Deferred Inflows of Resources	\$ 2,852,031
NET POSITION	
3200 Net Investment in Capital Assets	\$ 5,981,473
Restricted For:	
3850 Debt Service	1,008,658
3890 Other Purposes	93,567
3900 Unrestricted	(1,397,665)
3000 Total Net Position	\$ 5,686,033

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
					Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 7,257,102	\$ 12,253	\$ 1,350,989	\$ (5,893,860)
12	Instructional Resources and Media Services	311,608	-	24,305	(287,303)
13	Curriculum and Staff Development	2,456	-	-	(2,456)
21	Instructional Leadership	41,744	-	2,670	(39,074)
23	School Leadership	888,697	-	56,977	(831,720)
31	Guidance, Counseling and Evaluation Services	348,999	-	21,995	(327,004)
33	Health Services	115,348	-	9,206	(106,142)
34	Student (Pupil) Transportation	391,477	-	14,151	(377,326)
35	Food Services	754,600	136,670	449,299	(168,631)
36	Cocurricular /Extracurricular Activities	554,182	27,325	21,180	(505,677)
41	General Administration	963,759	226,896	38,788	(698,075)
51	Plant Maintenance and Operations	1,073,516	9,420	127,342	(936,754)
52	Security and Monitoring Services	74,397	-	-	(74,397)
53	Date Processing Service	2,695	-	-	(2,695)
72	Interest on Long-term Debt	244,459	-	46,385	(198,074)
73	Debt Issuance Costs and Fees	3,500	-	-	(3,500)
93	Payments for Shared Service Arrangements	134,633	-	-	(134,633)
99	Other Intergovernmental Charges	80,053	-	-	(80,053)
TG	Total Governmental Activities	<u>\$ 13,243,225</u>	<u>\$ 412,564</u>	<u>\$ 2,163,287</u>	<u>\$ (10,667,374)</u>
TP	Total Primary Government	<u>\$ 13,243,225</u>	<u>\$ 412,564</u>	<u>\$ 2,163,287</u>	<u>\$ (10,667,374)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purpose				\$ 2,863,054
DT	Property Taxes, Levied for Debt Service				1,166,951
IE	Investment Earnings				25,256
GC	Grant and Contributions Not Restricted to Specific Programs				7,130,405
MI	Miscellaneous				26,719
TR	Total General Revenues				<u>\$ 11,212,385</u>
CN	Change in Net Position				\$ 545,011
NB	Net Position - Beginning (July 1)				<u>5,141,022</u>
NE	Net Position - Ending (June 30)				<u><u>\$ 5,686,033</u></u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS				
1110 Cash and Investments	\$ 4,300,450	\$ 1,022,493	\$ -	\$ 5,322,943
1225 Property Taxes Receivable, Net	336,197	109,219	-	445,416
1240 Due from Other Governments	1,492,731	-	315,453	1,808,184
1250 Accrued Interest	1,190	-	-	1,190
1290 Other Receivables	6,508	2,649	21,808	30,965
1300 Inventories	-	-	10,712	10,712
1000 Total Assets	<u>\$ 6,137,076</u>	<u>\$ 1,134,361</u>	<u>\$ 347,973</u>	<u>\$ 7,619,410</u>
LIABILITIES				
Current Liabilities:				
2110 Accounts Payable	\$ 176,056	\$ -	\$ 134,615	\$ 310,671
2150 Payroll Deductions and withholdings	77,450	-	-	77,450
2160 Accrued Wages Payable	769,595	-	49,029	818,624
2200 Accrued Expenditures	55,957	-	8,228	64,185
2300 Unearned Revenues	346,706	38,890	11,864	397,460
2000 Total Liabilities	<u>\$ 1,425,764</u>	<u>\$ 38,890</u>	<u>\$ 203,736</u>	<u>\$ 1,668,390</u>
DEFERRED INFLOWS OF RESOURCES				
2610 Deferred Property Taxes	\$ 336,197	\$ 109,219	\$ -	\$ 445,416
2600 Total Deferred Inflows of Resources	<u>\$ 336,197</u>	<u>\$ 109,219</u>	<u>\$ -</u>	<u>\$ 445,416</u>
FUND BALANCES				
Nonspendable Fund Balances:				
3410 Inventories	\$ -	\$ -	\$ 10,712	10,712
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	-	-	(10,712)	(10,712)
3480 Retirement of Long Term Debt	-	986,252	-	986,252
3490 Other Restrictions of Fund Balances	-	-	93,567	93,567
Committed Fund Balances:				
3510 Construction	2,000,000	-	-	2,000,000
3545 Other Committed Fund Balances	-	-	50,670	50,670
3600 Unassigned	2,375,115	-	-	2,375,115
3000 Total Fund Balances	<u>\$ 4,375,115</u>	<u>\$ 986,252</u>	<u>\$ 144,237</u>	<u>\$ 5,505,604</u>
4000 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,137,076</u>	<u>\$ 1,134,361</u>	<u>\$ 347,973</u>	<u>\$ 7,619,410</u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET (GOVERNMENTAL FUNDS)
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2021

Total fund balances - Governmental Funds Balance Sheet	\$ 5,505,604
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	13,430,618
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	445,416
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	158,802
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,680,000)
Payable for capital leases which are not due in the current period are not reported in the funds.	(89,934)
Payables for debt interest which are not due in the current period are not reported in the funds.	(86,813)
Payables for notes which are not due in the current period are not reported in the funds.	(297,000)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	435,380
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(2,418,724)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(392,296)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	934,511
Bond premiums are amortized in the SNA but not in the funds.	(382,211)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(3,099,149)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(2,459,735)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	<u>681,564</u>
Net position of governmental activities - Statement of Net Position	<u><u>\$ 5,686,033</u></u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES				
5700 Local and Intermediate Sources	\$ 2,964,968	\$ 1,154,855	\$ 411,620	\$ 4,531,443
5800 State Program Revenues	7,684,014	46,385	60,535	7,790,934
5900 Federal Program Revenues	241,384	-	1,063,412	1,304,796
5020 Total Revenues	\$ 10,890,366	\$ 1,201,240	\$ 1,535,567	\$ 13,627,173
EXPENDITURES				
Current:				
0011 Instruction	\$ 6,137,489	\$ -	\$ 595,553	\$ 6,733,042
0012 Instructional Resources and Media Services	275,860	-	-	275,860
0013 Curriculum and Staff Development	1,398	-	-	1,398
0021 Instructional Leadership	40,344	-	-	40,344
0023 School Leadership	840,031	-	-	840,031
0031 Guidance, Counseling and Evaluation Services	334,547	-	-	334,547
0033 Health Services	108,964	-	-	108,964
0034 Student (Pupil) Transportation	271,528	-	-	271,528
0035 Food Services	73,787	-	668,592	742,379
0036 Cocurricular /Extracurricular Activities	472,696	-	21,075	493,771
0041 General Administration	752,082	-	220,317	972,399
0051 Plant Maintenance and Operations	1,132,558	-	91,019	1,223,577
0052 Security and Monitoring Services	74,397	-	-	74,397
0053 Data Processing Services	2,695	-	-	2,695
0071 Principal on Long-term Debt	142,305	345,000	-	487,305
0072 Interest on Long-term Debt	13,877	229,438	-	243,315
0073 Debt Issuance Cost and Fees	-	3,500	-	3,500
0093 Payments for Shared Service Arrangements	134,633	-	-	134,633
0099 Other Intergovernmental Charges	80,053	-	-	80,053
6030 Total Expenditures	\$ 10,889,244	\$ 577,938	\$ 1,596,556	\$ 13,063,738
1100 Excess (Deficiency) of Revenues Over Expenditures	\$ 1,122	\$ 623,302	\$ (60,989)	\$ 563,435
OTHER FINANCING SOURCES (USES)				
7915 Transfers in	\$ 26,898	\$ 2,500	\$ 106,188	\$ 135,586
8911 Transfers out	(108,688)	-	(26,898)	(135,586)
7080 Net Other Financing Sources (Uses)	\$ (81,790)	\$ 2,500	\$ 79,290	\$ -
1200 Net Changes in Fund Balances	\$ (80,668)	\$ 625,802	\$ 18,301	\$ 563,435
0100 Fund Balances - Beginning (July 1)	4,455,783	360,450	125,936	4,942,169
3000 Fund Balances - Ending (June 30)	\$ 4,375,115	\$ 986,252	\$ 144,237	\$ 5,505,604

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2021

Net change in fund balances - total governmental funds	\$	563,436
<p>Amounts reported for governmental activities in the statement of activities ("SOA") are different because:</p>		
Capital outlays are not reported as expenses in the SOA.		314,333
The depreciation of capital assets used in governmental activities is not reported in the funds.		(730,799)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		(1,922)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.		(7,603)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		345,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		87,305
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		55,000
(Increase) decrease in accrued interest expense from beginning of year to end of year.		6,459
The net revenue (expense) of internal service funds is reported with governmental activities.		24,145
OPEB expense is recorded in the SOA but not in the funds.		94,174
OPEB contributions in the CY are de-expended and recorded as deferred resource outflows.		55,971
OPEB contributions deferred in the PY are expended in the CY		(52,110)
Pension expense is recorded in the SOA but not in the funds.		(224,206)
Pension Contributions in the CY are de-expended and recorded as deferred resource outflows.		173,629
Pension contributions deferred in the PY are expended in the CY.		<u>(157,799)</u>
Change in net position of governmental activities - Statement of Activities	\$	<u>545,013</u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

Data Control Codes	Nonmajor Internal Service Fund <hr/> Insurance Fund <hr/>
ASSETS	
Current Assets:	
1110 Cash and Investments	<u>\$ 198,909</u>
Total Current Assets	<u>\$ 198,909</u>
1000 Total Assets	<u>\$ 198,909</u>
LIABILITIES	
Current Liabilities:	
2110 Accounts Payable	<u>\$ 40,107</u>
Total Current Liabilities	<u>\$ 40,107</u>
2000 Total Liabilities	<u>\$ 40,107</u>
NET POSITION	
3900 Unrestricted Net Position	<u>\$ 158,802</u>
3000 Total Net Position	<u>\$ 158,802</u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

<u>Data Control Codes</u>		<u>Nonmajor Internal Service Fund Insurance Fund</u>
	OPERATING REVENUES	
5700	Local and Intermediate Sources	\$ 94,725
5020	Total Revenues	\$ 94,725
	OPERATING EXPENSES	
6400	Other Operating Costs	\$ 70,580
6030	Total Expenses	\$ 70,580
1300	Change in Net Position	\$ 24,145
0100	Net Position - Beginning (July 1)	134,657
3000	Net Position - Ending (June 30)	\$ 158,802

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	<u>Nonmajor Internal Service Fund</u> <u>Insurance Fund</u>
Cash Flows from Operating Activities:	
Cash Receipts from Quasi-external Interfund Transfers	\$ 94,725
Cash Payments for Reinsurance and Administration	(38,588)
Cash Payments for Claims	<u>(71,919)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (15,782)</u>
Cash Flows from Capital and Other Related Financing Activities:	
NONE	
Cash Flows from Noncapital Financing Activities:	
NONE	
Cash Flows from Investing Activities:	
NONE	
Net Increase (Decrease) in Cash and Investments	\$ (15,782)
Cash and Investments - Beginning (July 1)	<u>214,691</u>
Cash and Investments - Ending (June 30)	<u><u>\$ 198,909</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 24,145
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase (Decrease) in Claims Payable	<u>(39,927)</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (15,782)</u></u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
 JUNE 30, 2021

<u>Data Control Codes</u>	<u>Custodial Fund Student Activity</u>
ASSETS	
Current Assets:	
1110 Cash and Investments	\$ <u>66,378</u>
1000 Total Assets	\$ <u>66,378</u>
NET POSITION	
Restricted for:	
3490 Student Groups	\$ <u>66,378</u>
3000 Total Net Position	\$ <u><u>66,378</u></u>

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2021

Data Control Codes		Custodial Fund Student Activity
ADDITIONS		
5700	Fundraising Activities	\$ 128,955
5020	Total Addition	\$ 128,955
DEDUCTIONS		
6400	Group Activities	\$ 108,971
6030	Total Deductions	\$ 108,971
1300	Change in Net Position	\$ 19,984
0100	Net Position, Beginning (July 1)	\$ -
	Prior Period Adjustment	46,394
	Net Position, Beginning as restated	\$ 46,394
3000	Net Position, Ending (June 30)	\$ 66,378

The accompanying notes are an integral part of this statement.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies

The basic financial statements of the Lone Oak 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.

1. Reporting Entity

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and 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." There are no component units included within the reporting entity.

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

2. Basis of Presentation – Basis of Accounting

a. Basis of Presentation

Government-wide Statements – The statement of net position (SNA) 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 nonmajor funds.

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

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.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of general long-term Debt principal, interest and related costs.

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.

Internal Service Funds – These funds are proprietary type 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 uses internal service funds for self insured workers compensation and self insured technology repair activities.

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

b. 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.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

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 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.

3. 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:

- a. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1.
- b. 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.
- c. 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.

4. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

General Fund	\$	-0-
Special Revenue Fund		-0-
Debt Service Fund		-0-
Total	\$	-0-

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

5. 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 Balance

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 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.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

The following schedule provides information about the specific fund balance classification by fund:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Nonspendable				
Inventories	\$ -	\$ -	\$ 10,712	\$ 10,712
Restricted				
Retirement of Long Term Debt		986,252		986,252
Hunt County Coop		-	93,567	93,567
Child Nutrition Program		-	(10,712)	(10,712)
Committed			-	
Construction	2,000,000	-	-	2,000,000
Campus Activity Funds		-	50,670	50,670
Unassigned	2,375,115	-	-	2,375,115
Totals	<u>\$ 4,375,115</u>	<u>\$ 986,252</u>	<u>\$ 144,237</u>	<u>\$ 5,505,604</u>

Inventories

The purchase method is used to account for inventories of school supplies, athletic equipment and food products. Under this method, supplies and materials are debited as expenditures when purchased.

Prepaid Items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures when the items are consumed or occur.

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15-50
Vehicles	5-10
Other Equipment	3-15

Unearned Revenues

Unearned revenues include state funds received but have not been earned in the year. The balance will be earned in the future period and not returned as liabilities.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

6. Deferred Outflows and Inflows of Resources

The District implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits and Other Pensions*. 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 on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources.

The District also implemented GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends the transition provisions of GASB 68. GASB 71 requires that, at transition, governments recognize a beginning deferred outflow of resource for pension contributions made subsequent to the measurement date of the beginning Net Pension Liability. Implementation is reflected in the financial statements and the prior period adjustment.

7. Receivable and Payable Balances

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

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

8. 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 the government-wide statement of net position.

9. 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 vests, accumulates, and is recorded as expense as it is incurred. Sick leave is paid upon separation from the District.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

A. Summary of Significant Accounting Policies (Continued)

10. 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.

11. Other Post-Employment Benefits (OPEB)

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 OPEB, 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 a pay-as-you-go plan and all cash is held in a cash account.

12. 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.

13. 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.

14. 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.

B. Deposits, Securities and Investments

Cash Deposits

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance District (FDIC) insurance. At year end, all District cash deposits appear to have been adequately covered by FDIC insurance or by pledged collateral held by the District or the depository in the District's name. The District's deposits appear to have been properly secured throughout the year.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

B. Deposits, Securities and Investments (Continue)

Investments

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with all the requirements of the Act.

The PFIA (Government Code Chapter 256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement and publicize an investment policy. That policy must address the following areas (1) safety of principal and liquidity, (2) portfolio diversifications, (3) allowable investments, (4) acceptable risk level, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the state maturity date of portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preference for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The PFIA governs the District's investment policies and types of investments.

The District's management believes that it complies with the requirements of the PFIA and the District's investment policies.

District investments include investments in Certificates of Deposit and TexPool. All investments are reported at fair value and are presented as cash and investment.

The following table lists the District's investments at year end:

<u>Description</u>	<u>Fair/Value Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Governmental Activities:		
Cash Deposits	\$ 1,932,804	N/A
Certificates of Deposit	3,397,003	N.A
Investments:		
TexPool	<u>80,689</u>	36
Total	<u>\$ 5,410,496</u>	

TexPool

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

B. Deposits, Securities and Investments (Continue)

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

a. Credit Risk

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

b. Custodial Credit Risk

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

Investment securities are exposed to custodial 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 Districts' name. At year end, the District was not exposed to custodial credit risk.

The largest combined balances of cash, saving and time deposit accounts amounted to \$ 6,437,971 and occurred in the month of January 2021. The market value of bonds or other securities used to secure cash on the date of the highest combined cash balance was \$ 8,621,969. The total amount of FDIC coverage at the time of the highest combined balance was \$ 504,856. American National Bank is the District's depository.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. District investments are limited to short term maturities to limit any potential interest rate risk. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. State statutes do not allow for foreign investments this eliminating foreign currency rate risk. The District was not exposed to foreign currency risk.

f. Fair Value Measurements

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements require judgement and considers factors specific to each asset or liability.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

B. Deposits, Securities and Investments (Continue)

The fair value of the certificates of deposit at year end was determined based on level 2 inputs. The District estimated the fair value of these investments using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Districts investments in the various local government investment pools is not required to be measured at fair value but is measured at amortized cost.

C. 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. Allowances 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 \$ 0.8568 to fund general operations and \$ 0.35 for the payment of principal and interest on long-term debt. The rates were levied on property assessed totaling \$ 329,656,816. The District contracts with a tax attorney for the collection of all delinquent taxes. Delinquent taxes are subject to both penalty and interest plus a 25% delinquent tax attorney collection fee.

D. Capital Assets

Capital asset activities during the year were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental Activities:</u>				
Capital Assets not being depreciated:				
Land	\$ 397,333	\$ -	\$ -	\$ 397,333
Total Capital Assets not being depreciated	\$ 397,333	\$ -	\$ -	\$ 397,333
Capital Assets being depreciated:				
Buildings and Improvements	\$ 23,398,621	\$ 246,125	\$ -	\$ 23,644,746
Vehicles	1,851,440	41,047	-	1,892,487
Equipment	307,875	27,161	-	335,036
Total Capital Assets being depreciated	\$ 25,557,936	\$ 314,333	\$ -	\$ 25,872,269
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 10,720,068	\$ 598,465	\$ -	\$ 11,318,533
Vehicles	1,184,845	116,139	-	1,300,984
Equipment	203,272	16,195	-	219,467
Total Accumulated Depreciation	\$ 12,108,185	\$ 730,799	\$ -	\$ 12,838,984
Total Capital Assets being depreciated, net	\$ 13,449,751	\$ (416,466)	\$ -	\$ 13,033,285
Governmental Activities Capital Assets, net	\$ 13,847,084	\$ (416,466)	\$ -	\$ 13,430,618

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

D. Capital Assets (Continued)

Depreciation was charged to governmental activities functions as follows:

Instruction	\$	428,950
Instructional Resources and Media Services		27,075
Staff Development		1,058
School Leadership		22,615
Guidance, Counseling and Evaluation Services		4,741
Health Services		3,262
Student (Pupil) Transportation		114,371
Food Services		28,749
Cocurricular / Extracurricular Activities		83,748
General Administration		6,310
Plant Maintenance and Operations		9,920
		<u>9,920</u>
Total	<u>\$</u>	<u>730,799</u>

E. Long-term Obligations

Long-term Obligation Activity

Long-term obligation activities during the year were as follows:

	Beginning		Ending		Amounts
	Balance	Increases	Decrease	Balance	Due Within
					One Year
<u>Governmental Activities:</u>					
Bond Obligations Payable	\$ 7,025,000	\$ -	\$ 345,000	\$ 6,680,000	\$ 360,000
Loans Payable	352,000	-	55,000	297,000	57,000
Leases Payable	177,239	-	87,305	89,934	89,934
Bond Premium (Discount)	411,757	-	29,546	382,211	-
					<u>-</u>
Total Governmental Activities	<u>\$ 7,965,996</u>	<u>\$ -</u>	<u>\$ 516,851</u>	<u>\$ 7,449,145</u>	<u>\$ 506,934</u>

Bonds

The District has issued various series of general obligation bonds to fund facility construction and improvements. Bonds mature at various times with varying rates of interest. The bonds issued require the District to levy an ad valorem tax annually to retire the current maturities. The District is required to make semi-annual interest payments along with annual principal payments.

The following bonded debt issues are outstanding at year end:

Description	Interest Rate	Original Amount	Outstanding Balance
Unlimited Tax Refunding Bonds, Series 2012	3.93%	\$ 3,285,000	\$ 2,375,000
Unlimited Tax Refunding Bonds, Series 2015	3.427%	4,865,000	<u>4,305,000</u>
Totals			<u>\$ 6,680,000</u>

Maturity requirements on bonded debt at year end are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2022	360,000	217,513	577,513
2023	375,000	204,013	579,013
2024	395,000	189,300	584,300
2025	410,000	173,363	583,363
2026	435,000	156,600	591,600
2027 - 2031	2,490,000	534,376	3,024,376
2032 - 2036	2,215,000	161,351	2,376,351
Totals	<u>\$ 6,680,000</u>	<u>\$ 1,636,516</u>	<u>\$ 8,316,516</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District appears to be in compliance with all significant limitations and restrictions as of year end.

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

E. Long-term Obligations

Loans

The District issued various agreements identified here as loans. These loans include financing arrangements including maintenance tax notes.

Loan terms require annual principal and interest payments over the life of the loan. The loan is for 10 years, with final payment date of June 2026.

The following schedule lists the outstanding loans at year end:

Description	Interest Rate	Original Amount	Outstanding Balance
Time Warrants, Series 2017 (TEC 45.003)	2.43%	\$ 570,000	\$ 297,000

Maturity requirement on the loans at year end are as follows:

Year Ending June 30	Principal	Interest
2022	\$ 57,000	\$ 7,217
2023	58,000	5,832
2024	59,000	4,423
2025	61,000	2,989
2026	62,000	1,506
Totals	<u>\$ 297,000</u>	<u>\$ 21,967</u>

Capital Leases

The District is obligated under certain leases accounted for as capital leases. The leases recorded here meet the criteria of a capital lease as defined by statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The following schedule lists personal property leased:

Description	Interest Rate	Original Amount
Alliance Bank - 3 Buses (TEC 34.009)	3.00%	\$ 262,007

The lease terms are for three years. The terms call for annual payments over the life of the lease.

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of end of year, are as follows:

Year Ending June 30	Total Requirements
2022	<u>\$ 92,629</u>
Total Minimum Lease Payment	\$ 92,629
Less Amount Representing Interest	<u>(2,695)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 89,934</u>

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

F. Defined Benefits Pension Plan

1. *Plan Description*

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

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

2. *Pension Plan Fiduciary Net Position*

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. The information provided in the Notes to the Financial Statements in the 2019 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2020 and 2019.

<u>Net Pension Liability</u>	<u>2020</u>	<u>2019</u>
Total Pension Liability	\$ 218,974,205,084	\$ 209,961,325,288
Less: Plan Fiduciary Net Position	<u>(165,416,245,243)</u>	<u>(157,978,199,075)</u>
Net Pension Liability	<u>\$ 53,557,959,841</u>	<u>\$ 51,983,126,213</u>
Net Position as percentage of Total Pension Liability	78.54%	75.24%

3. *Benefits Provided*

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 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 (1) above.

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

F. Defined Benefits Pension Plan (Continued)

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

4. *Contributions*

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

Employee contribution rates are set in state statute, Texas Government Code Section 825.402. The TRS Pension Reform Bill (SB12) of the 86th Texas Legislature amended Texas Government Code Section 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

Contribution Rates

	2020	2021
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	7.5%
Employers	7.5%	7.5%
Current Year Employer Contributions	\$	201,785
Current Year Member Contributions	\$	553,137
Measurement Year NECE On-Behalf Contributions	\$	474,768

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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, 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 including public 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.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

F. Defined Benefits Pension Plan (Continued)

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.

A Public Education Employer contribution surcharge of 1.5% increasing to 2% over the period ending 2025 on all covered payroll.

5. *Actuarial Assumptions*

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

Valuation Date	August 31, 2019 rolled forward to 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	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05% including inflation
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None
Municipal Bond Rate	2.33%
Ending year in Projection Period	2119

The actuarial assumptions used in this determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2019. A full description of the assumptions are included with the report dated November 14, 2019.

6. *Discount Rate*

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

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

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as August 31, 2020 are summarized on the next page:

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

F. Defined Benefits Pension Plan (Continued)

Asset Class	FY 2020 Target Allocation ¹ %	Long -Term Expected Geometric Real Rate of Return	Expected Contribution to Long- Term Portfolio Returns
Global Equity			
U.S.	18.0%	3.9%	0.99%
Non-U.S. Developed	13.0%	5.1%	0.92%
Emerging Markets	9.0%	5.6%	0.83%
Directional Hedge Funds		-	-
Private Equity	14.0%	6.7%	1.41%
Stable Value			
Government Bonds	16.0%	-0.7%	-0.05%
Absolute Return (Including Credit Sensitive Investments)	0.0%	1.8%	0.0%
Stable Value Hedge Funds	5.0%	1.9%	0.11%
Real Return			
Global Inflation Linked Bonds ⁴		-	-
Real Estate	15.0%	4.6%	1.02%
Energy, Natural Resources and Infrastructure	6.0%	6.0%	0.42%
Commodities	0.0%	0.8%	0.0%
Risk Parity			
Risk Parity	8.0%	3.0%	0.30%
Leverage			
Cash	2.0%	-1.5%	-0.03%
Asset Allocation Leverage	-6.0%	-1.3%	0.08%
Inflation Expectation			2.00%
Volatility Drag ³			-0.67%
Expected Return	<u>100%</u>		<u>7.33%</u>

¹ Target allocations are based on the FY2020 policy model.

² Capital Market Assumptions come from Aon Hewitt (as of 18/31/2020)

³ The Volatility drag results from the conversation between arithmetic and geometric mean returns.

7. *Discount Rate Sensitivity Analysis*

The following presents the District's share of the net pension liability of the plan using the discount rate of 7.25% as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower (6.25%) or 1 – percentage point higher (8.25%) than the current rate:

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 3,729,630	\$ 2,418,724	\$ 1,353,642

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

At June 30, 2021, the District reported a liability of \$ 2,418,724 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	\$ 2,418,724
State's proportionate share that is associated with the District	<u>6,162,746</u>
Total	<u>\$ 8,581,470</u>

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

F. Defined Benefits Pension Plan (Continued)

The net pension liability was measured as of August 31, 2019 and rolled to 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 employer's proportion of the net pension liability was based on the employer's contribution 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 employer's proportion of the collective net pension liability was 0.0045160874%, which was a decrease of 0.0001188959% from its proportion measured as of August 31, 2019.

Changes Since the Prior Actuarial Valuation

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

For the current year the District recognized pension expense of \$ 1,123,247 and revenue of \$ 741,242 for support provided by the State.

At year end, 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 actuarial experiences	\$ 4,416	\$ 67,500
Changes of actuarial assumptions	561,230	238,631
Differences between projected and actual investment earnings	48,965	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	146,271	86,165
Total as of August 31, 2019 measurement date	\$ 760,882	\$ 392,296
Contributions paid to TRS subsequent to the measurement date	173,629	-
Total at year end	\$ 934,511	\$ 392,296

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

Year Ending June 30	Amount
2022	\$ 124,043
2023	131,047
2024	110,245
2025	34,262
2026	(28,015)
Thereafter	(2,996)

G. Other Post-Employment Benefit Plans

1. *Plan Description*

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature. 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 1575.052

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

G. Other Post-Employment Benefit Plans (Continued)

2. *OPEB Plan Fiduciary Net Position*

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

The components of the Net OPEB Liability of the TRS-Care plan as of August 31, 2020 and 2019 are as follows:

Net OPEB Liability	2020	2019
Total OPEB Liability	\$ 40,010,833,815	\$ 48,583,247,239
Less: Plan Fiduciary Net Position	(1,996,317,932)	(1,292,022,349)
Net OPEB Liability	\$ 38,014,515,883	\$ 47,291,224,890
Net Position as percentage of Total OPEB Liability	4.99%	2.66%

3. *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 system. Optional dependent coverage is available for an additional fee.

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

The premium rates for retirees are presented in the table below:

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

4. *Contributions*

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

G. Other Post-Employment Benefit Plans (Continued)

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer (public school) contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. The actual public school 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.

	2020	2021
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding remitted by Employers	1.25%	1.25%
Current Year Employer Contributions		\$ 65,792
Current Year Member Contributions		\$ 46,693
Measurement Year NECE On-Behalf Contributions		\$ 83,265

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.

A supplemental appropriation was authorized by Senate Bill 1264 of the 86th Texas Legislature to provide \$ 2,208,137 for fiscal year 2020 and \$ 3,312,206 for fiscal year 2021, for consumer protections against medical and health care billing by certain out-of-network providers. Funding will be in fiscal year 2021.

5. *Actuarial Assumptions*

The total OPEB liability in the August 31, 2019 actuarial valuation was rolled forward to August 31, 2020. The actuarial valuation was determined using the following actuarial assumptions:

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

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Salary Increases
Rates of Disability	

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females with full generational mortality using scale BB. The past retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

G. Other Post-Employment Benefit Plans (Continued)

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	2.33% as of August 31, 2020
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	3.05% to 9.05%, including inflation
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

6. *Discount Rate*

A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of 0.3% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

7. *Discount Rate Sensitivity Analysis*

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% greater than the discount rate that was used (2.63%) in measuring the net OPEB liability.

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 3,718,971	\$ 3,099,149	\$ 2,609,578

8. *Healthcare Cost Trend Rates Sensitivity Analysis*

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate (8.5%), as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,531,607	\$ 3,099,149	\$ 3,855,033

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

G. Other Post-Employment Benefit Plans (Continued)

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

At June 30, 2021, the District reported a liability of \$ 3,099,149 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective Net OPEB Liability	\$	3,099,149
State's proportionate share that is associated with the District		4,164,513
Total	\$	7,263,662

The net OPEB liability was measured as of August 31, 2019 and rolled forward to 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 District's proportion of the net OPEB Liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At August 31, 2020, the District's proportion of the collective net OPEB liability was 0.0081525400%, which was an increase of 0.0002755253% from its proportion measured as of August 31, 2019.

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

- a. Discount rate decreased from 2.65% to 2.33% increasing the Total OPEB Liability.
- b. The participation rate for post-65 retirees was lowered from 50% to 40%. This change lowered the Total OPEB Liability.
- c. The ultimate healthcare assumption was lowered from 4.50% to 4.25% as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the Total OPEB Liability.

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

For the current year, the District recognized OPEB expense of \$ (70,981) and revenue of \$ (28,917) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 162,270	\$ 1,418,329
Changes in actuarial assumptions	191,153	851,042
Differences between projected and actual investment earnings	1,007	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	271,163	190,364
Total as of August 31, 2020 measurement date	\$ 625,593	\$ 2,459,735
Contributions paid to TRS subsequent to the measurement date	55,971	-
Total at year end	\$ 681,564	\$ 2,459,735

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

G. Other Post-Employment Benefit Plans (Continued)

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

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ (307,791)
2023	(307,926)
2024	(308,006)
2025	(307,985)
2026	(225,204)
Thereafter	(377,230)

H. Medicare Part D Coverage

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2021, 2020 and 2019, the subsidy payments received by TRS-Care on behalf of the District were \$ 32,005, \$ 31,173 and \$ 24,154, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

I. Risk Management

Health Care

During the year, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$ 275 per month per employee and employees, at their opinion, authorized payroll withholdings to provide dependents coverage under the Plan. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and Aetna is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the year ended December 31, 2020 and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records

Workers Compensation

During the year ended, June 30, 2021, the District met its statutory worker's compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All Members participating in the fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. Risk Management (Continued)

Workers Compensation

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2020, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

The District was formerly in the East Texas Educational Insurance Association Workers' Compensation Self Insurance Joint Fund. The District will continue to be responsible for claims incurred during their membership period. At year end, the District's claim liability was estimated at \$ 39,539 including an allotment for incurred but not reported claims.

Unemployment Compensation Pool

During the current year, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2020 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability and Property Programs

During the year, the District participated in the following TASB Risk Management Fund (the Fund) Programs:

Auto Liability
Auto Physical Damage
Privacy & Information Security
Property
School Liability

The Fund was created and is operated under the provision of the interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreement that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the current year, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2020, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

I. Risk Management (Continued)

Other Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the District purchased commercial insurance to cover these liabilities. There were not 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.

J. Litigation

The District appears to have no pending litigation as of June 30, 2021.

K. 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 year end, 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.

L. Shared Service Arrangements

The District participates in cooperative programs with other local districts. The District does not account for revenue or expenditures of these programs and does not disclose them in these financial statements.

<u>Shared Service Arrangements</u>	<u>Fiscal Agent</u>	<u>Service</u>
Tri-County Cooperative	Commerce Independent School District	Special Education
NetCat Cooperative	Commerce Independent School District	Vocational Programs
Hunt County Cooperative Cooperative	Lone Oak Independent School District	Administrative Services

M. Revenue from Local and Intermediate Sources

During the year, the District received revenue from local and intermediate sources in the Districts individual major funds and aggregate non-major funds consisting of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property Tax Collections	\$ 2,877,705	\$ 1,154,223	\$ -	\$ 4,031,928
Investment Income	24,624	632	-	25,256
Food Service Income	-	-	136,670	136,670
Gifts and Bequests	12,857	-	22,118	34,975
Cocurricular/Extracurricular Activities	1,387	-	25,936	27,323
Tuition and Fees	12,253	-	226,896	239,149
Other	36,142	-	-	36,142
Totals	<u>\$ 2,964,968</u>	<u>\$ 1,154,855</u>	<u>\$ 411,620</u>	<u>\$ 4,531,443</u>

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

N. Receivables

Receivables at year end, for the District's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	General Fund	Debt Service Fund	Other Nonmajor	Total
Due from Other Governments	\$ 1,492,731	\$ -	\$ 315,454	\$ 1,808,185
Accrued Interest	1,190	-	-	1,190
Property Taxes	373,552	121,355	-	494,907
Less Allowance for Uncollectible				
Property Taxes	(37,355)	(12,136)	-	(49,491)
Due from Tax Collector	6,508	2,649	-	9,157
Other	-	-	21,808	21,808
	<u>\$ 1,836,626</u>	<u>\$ 111,868</u>	<u>\$ 337,262</u>	<u>\$ 2,285,756</u>
Net Receivables	<u>\$ 1,836,626</u>	<u>\$ 111,868</u>	<u>\$ 337,262</u>	<u>\$ 2,285,756</u>

O. Subsequent Events

Management has evaluated all events or transactions that occurred after June 30, 2021 up through October 29, 2021 the date the financial statements were issued.

P. State Aid Reconciliation

The State provides various types of funding for local school districts as provided for in state statute. The following reconciliation presents funding earned by the District in each category presented. Because of the State's delay in reconciling the funding to local districts, the summary below represents an estimate of earnings. The settle up with the State will occur some 9 to 10 months following the fiscal year end.

Funding is earned for: 1) Available – annual allocation based on prior year enrollment; 2) Foundation – annual allocation based on student attendance, property tax collections and valuations, and special student population; 3) Instructional Facilities Allotment – based on property wealth; and 4) Existing Debt Allotment – based on eligible debt, student attendance and property wealth. Various other sources are received but not reconciled here as these are the major sources of funding.

	Available	Foundation	IFA	EDA
CY Summary of Finances (SOF)	\$ 454,553	\$ 6,732,600	\$ 5,803	\$ 53,689
Prior Year Settle Ups	-	(56,748)	(4,286)	(8,821)
Financial Statement Earnings	<u>\$ 454,553</u>	<u>\$ 6,675,852</u>	<u>\$ 1,517</u>	<u>\$ 44,868</u>
Financial Statement Amounts				
SOF Receivable (Overpayment) *	\$ 96,252	\$ 1,396,479	\$ (12,784)	\$ (26,106)

* Overpayments are represented in the financial statements as Unearned Revenue (government-wide and governmental).

LONE OAK INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2021

Q. Interfund Balances and Activities

Transfer To and From Other Funds

Transfers to and from other funds during the year ended, consisted of the following.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Debt Service Fund	\$ 2,500	Award Fees
General Fund	Food Service Fund	106,188	To Cover Annual Deficit
Special Revenue (ESSER)	General Fund	26,898	Pre-award Costs
	Total	<u>\$ 135,586</u>	

R. Change in Accounting Principle

The District implemented the following Governmental Accounting Standard Board Statements during the year. The provisions impact the financial reporting for the District. Statement 84, *Fiduciary Activities*, relates to the presentation and accounting for custodial funds of the District. The standard includes fiduciary reporting and accounting for Student Custodial Funds (previously presented as Student Agency Funds) of the District. GASB Statements 91, 92, and 93, have also been implemented but do not have an impact on the District's financial reporting.

S. Prior Period Adjustments

During the year, the District implemented GASB 84, *Fiduciary Activities*, which require the reclassification and establishment of new equity accounts presented as Custodial Funds for the previously presented Student Agency Funds. The prior financial statement amount represented as Due to Student Groups is reclassified and presented as Net Position – Restricted for Student Activities. The establishment of the net position balances required the beginning equity to be increased by \$ 46,394 as presented on Exhibit E-2. The reclassification does not effect the government-wide or governmental fund financial statements. Only the fiduciary fund financial statements are affected.

T. Compliance, Stewardship, and Accountability

Expenditures over Appropriations

The following individual funds incurred expenditures in excess of appropriations at functional expenditure levels:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Child Nutrition Fund:			
Food Service	\$ 600,000	\$ 668,592	\$ 68,592

REQUIRED SUPPLEMENTARY INFORMATION

LONE OAK INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2021

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 3,059,400	\$ 3,059,400	\$ 2,964,968	\$ (94,432)
5800	State Program Revenues	7,840,600	7,840,600	7,684,014	(156,586)
5900	Federal Program Revenues	100,000	100,000	241,384	141,384
5020	Total Revenues	\$ 11,000,000	\$ 11,000,000	\$ 10,890,366	\$ (109,634)
EXPENDITURES					
Instruction and Instructional Related Services:					
0011	Instruction	\$ 6,300,000	\$ 6,152,750	\$ 6,137,489	\$ 15,261
0012	Instructional Resources and Media Services	250,000	276,000	275,860	140
0013	Curriculum and Staff Development	35,000	1,400	1,398	2
	Total Instruction and Instr. Related Services	\$ 6,585,000	\$ 6,430,150	\$ 6,414,747	\$ 15,403
Instructional and School Leadership:					
0021	Instructional Leadership	\$ 38,000	\$ 40,350	\$ 40,344	\$ 6
0023	School Leadership	820,000	841,000	840,031	969
	Total Instructional and School Leadership	\$ 858,000	\$ 881,350	\$ 880,375	\$ 975
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	\$ 300,000	\$ 335,000	\$ 334,547	\$ 453
0033	Health Services	113,000	113,000	108,964	4,036
0034	Student (Pupil) Transportation	425,000	275,000	271,528	3,472
0035	Food Service	15,000	75,000	73,787	1,213
0036	Cocurricular /Extracurricular Activities	500,000	480,000	472,696	7,304
	Total Support Services - Student (Pupil)	\$ 1,353,000	\$ 1,278,000	\$ 1,261,522	\$ 16,478
Administrative Support Services:					
0041	General Administration	\$ 520,000	\$ 755,000	\$ 752,082	\$ 2,918
	Total Administrative Support Services	\$ 520,000	\$ 755,000	\$ 752,082	\$ 2,918
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	\$ 1,200,000	\$ 1,200,000	\$ 1,132,558	\$ 67,442
0052	Security and Monitoring Services	74,000	74,500	74,397	103
0053	Data Processing Services	20,000	3,000	2,695	305
	Total Support Services - Nonstudent Based	\$ 1,294,000	\$ 1,277,500	\$ 1,209,650	\$ 67,850
Debt Service:					
0071	Principal on Long-Term Debt	\$ 71,000	\$ 143,000	\$ 142,305	\$ 695
0072	Interest on Long-Term Debt	12,393	14,000	13,877	123
0073	Bond Issuance Costs and Fees	86,607	-	-	-
	Total Debt Service	\$ 170,000	\$ 157,000	\$ 156,182	\$ 818
Intergovernmental Charges:					
0093	Payments for Shared Service Arrangements	\$ 150,000	\$ 140,000	\$ 134,633	\$ 5,367
0099	Other Intergovernmental Charges	70,000	81,000	80,053	947
	Total Intergovernmental Charges	\$ 220,000	\$ 221,000	\$ 214,686	\$ 6,314
6030	Total Expenditures	\$ 11,000,000	\$ 11,000,000	\$ 10,889,244	\$ 110,756
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ 1,122	\$ 1,122
OTHER FINANCING SOURCES (USES)					
7915	Transfers In	\$ -	\$ -	\$ 26,898	\$ 26,898
8911	Transfers Out	-	-	(108,688)	(108,688)
7080	Net Other Financing Sources (Uses)	\$ -	\$ -	\$ (81,790)	\$ (81,790)
1200	Net Change in Fund Balance	\$ -	\$ -	\$ (80,668)	\$ (80,668)
0100	Fund Balance - Beginning (July 1)	4,455,783	4,455,783	4,455,783	-
3000	Fund Balance - Ending (June 30)	\$ 4,455,783	\$ 4,455,783	\$ 4,375,115	\$ (80,668)

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED JUNE 30, 2021

	2021*	2019*	2018*	2017*	2016*	2015*	2014*
District's proportion of the net pension liability	0.0045160874%	0.0046349833%	0.004643008%	0.0046579883%	0.0046911591%	0.0045069000%	0.0026605000%
District's proportionate share of the net pension liability	\$ 2,418,724	\$ 2,409,409	\$ 2,457,260	\$ 1,489,377	\$ 1,772,719	\$ 1,593,129	\$ 710,657
State's proportionate share of the net pension liability associated with the District	6,162,746	5,529,628	5,815,544	3,341,321	3,871,935	3,676,537	3,176,470
Total	\$ 8,581,470	\$ 7,939,037	\$ 8,272,804	\$ 4,830,698	\$ 5,644,654	\$ 5,269,666	\$ 3,887,127
District's covered-employee payroll (for Measurement Year)	\$ 7,283,286	\$ 6,641,873	\$ 6,308,356	\$ 6,005,152	\$ 5,660,283	\$ 5,334,895	\$ 5,246,626
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	33.21%	36.28%	38.95%	24.80%	31.32%	29.86%	13.55%
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%

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

* The years above present data for the measurement period represents the period for which the pension plan prepares its reports which provides a 10 month delay for financial reporting in accordance with GASB 68.

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 201,785	\$ 182,490	\$ 152,427	\$ 151,049	\$ 151,677	\$ 146,220	\$ 106,736
Contributions in relations to the contractual required contributions	(201,785)	(182,490)	(152,427)	(151,049)	(151,677)	(146,220)	(106,736)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 7,183,591	\$ 7,184,576	\$ 6,578,687	\$ 6,257,376	\$ 5,541,459	\$ 5,551,740	\$ 5,360,390
Contributions as a percentage of covered employee payroll	2.81%	2.54%	2.32%	2.41%	2.74%	2.63%	1.99%

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED JUNE 30, 2021

	<u>2020*</u>	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>
District's proportion of the Net OPEB Liability (Asset)	0.0081525400%	0.0078770147%	0.0082698290%	0.0079851723%
District's proportionate share of the Net OPEB Liability (Asset)	\$ 3,099,149	\$ 3,725,137	\$ 4,129,201	\$ 3,472,452
State's proportionate share of the Net OPEB Liability (Asset) associated with the District	<u>4,164,513</u>	<u>4,949,873</u>	<u>5,468,120</u>	<u>4,823,624</u>
Total	<u>\$ 7,263,662</u>	<u>\$ 8,675,010</u>	<u>\$ 9,597,321</u>	<u>\$ 8,296,076</u>
District's covered-employee payroll (for Measurement Year)	\$ 7,283,286	\$ 6,641,873	\$ 6,308,356	\$ 6,005,152
District's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	42.55%	56.09%	65.46%	57.82%
Plan fiduciary net position as a percentage of the Total OPEB Liability	4.99%	2.66%	1.57%	0.91%

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

* The years above present data for the measurement period ended date. The measurement period represents the period for which the OPEB plan prepares its reports which provides a 10 month delay for financial reporting in accordance with GASB 75.

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICTS OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
YEAR ENDED JUNE 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 65,792	\$ 60,617	\$ 94,844	\$ 53,578
Contributions in relations to the contractual required contributions	<u>(65,792)</u>	<u>(60,617)</u>	<u>(94,844)</u>	<u>(53,578)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 7,183,591	\$ 7,184,576	\$ 6,578,687	\$ 6,257,376
Contributions as a percentage of covered employee payroll	0.92%	0.84%	1.44%	0.86%

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

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 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 June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
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 July 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 June 30, 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

1. Changes of Assumptions Since the Prior Measurement Date

There were no changes of assumptions since the prior measurement period.

2. Changes of Benefit Terms Since the Prior Measurement Date

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

C. OPEB Healthcare Plan

1. Changes of Assumptions Since the Prior Measurement Date

The following changes occurred in the plan assumptions.

- a. The discount rate changed from 2.65% to 2.33%
- b. The participation rate for post-65 retirees was lowered from 50% to 40%.

2. Changes of Benefit Terms Since the Prior Measurement Date

There were no changes of benefit terms that affected measurement of the total OPEB liability since the prior measurement date.

OTHER SUPPLEMENTARY INFORMATION

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 YEAR ENDED JUNE 30, 2021

Tax Roll Year	Last Ten Years Ended June 30	1		2		3	Assessed/Appraised Value For School Tax Purposes	10	Beginning Balance 7/1/2020	20	Current Year's Total Levy	30	Maintenance Tax Collections	30a	Debt Service Tax Collections	40	Entire Year's Adjustments	50	Ending Balance 6/30/2021
		Maintenance	Debt Service	Maintenance Tax Collections	Debt Service Tax Collections														
XXXX	2012 & Prior	Various	Various	Various	Various		\$ 87,609	\$	-	1,115	161	(2,018)	\$	84,315					
2012	2013	1.039000	0.327000	205,599,955	19,259	-	206	65	18,988										
2013	2014	1.040005	0.322246	200,709,740	18,228	-	423	131	17,673										
2014	2015	1.040050	0.322000	209,326,301	19,691	-	1,534	475	17,682										
2015	2016	1.040000	0.278950	202,658,023	16,656	-	780	209	15,666										
2016	2017	1.040000	0.278950	219,874,673	24,280	-	4,426	1,187	18,628										
2017	2018	1.040000	0.260000	235,099,445	48,504	-	13,899	3,475	30,884										
2018	2019	1.040000	0.260000	260,989,268	82,825	-	22,528	5,632	53,126										
2019	2020	0.970000	0.279272	294,374,433	179,990	-	78,088	22,482	72,198										
2020	2021	0.856800	0.350000	329,656,816	-	3,978,298	2,696,086	1,101,341	165,747										
1000 TOTALS					\$ 497,042	\$ 3,978,298	\$ 2,819,085	\$ 1,135,158	\$ (26,190)	\$ 494,907									

LONE OAK INDEPENDENT SCHOOL DISTRICT
SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2021

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original		Final				
REVENUES							
5700	Local and Intermediate Sources	\$ 312,000	\$ 312,000	\$ 136,980	\$ (175,020)		
5800	State Program Revenues	3,000	3,000	2,594	(406)		
5900	Federal Program Revenues	285,000	285,000	422,830	137,830		
5020	Total Revenues	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 562,404</u>	<u>\$ (37,596)</u>		
EXPENDITURES							
Current:							
Support Services - Student (Pupil):							
0035	Food Service	\$ 600,000	\$ 600,000	\$ 668,592	\$ (68,592)		
	Total Support Services - Student (Pupil)	\$ 600,000	\$ 600,000	\$ 668,592	\$ (68,592)		
6030	Total Expenditures	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 668,592</u>	<u>\$ (68,592)</u>		
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ (106,188)	\$ (106,188)		
OTHER FINANCING SOURCES (USES)							
7915	Transfers In	\$ -	\$ -	\$ 106,188	\$ 106,188		
7080	Net Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,188</u>	<u>\$ 106,188</u>		
1200	Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -		
0100	Fund Balance - Beginning (July 1)	-	-	-	-		
3000	Fund Balance - Ending (June 30)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>		

LONE OAK INDEPENDENT SCHOOL DISTRICT
 DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED JUNE 30, 2021

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 547,956	\$ 715,912	\$ 1,154,855	\$ 438,943
5800	State Program Revenues	200,000	200,000	46,385	(153,615)
5020	Total Revenues	<u>\$ 747,956</u>	<u>\$ 915,912</u>	<u>\$ 1,201,240</u>	<u>\$ 285,328</u>
EXPENDITURES					
Debt Service:					
0071	Principal on Long-term Debt	\$ 440,000	\$ 607,956	\$ 345,000	\$ 262,956
0072	Interest on Long-term Debt	302,956	302,956	229,438	73,518
0073	Debt Issuance Costs and Fees	5,000	5,000	3,500	1,500
	Total Debt Service	<u>\$ 747,956</u>	<u>\$ 915,912</u>	<u>\$ 577,938</u>	<u>\$ 337,974</u>
6030	Total Expenditures	<u>\$ 747,956</u>	<u>\$ 915,912</u>	<u>\$ 577,938</u>	<u>\$ 337,974</u>
1100	Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,302</u>	<u>\$ 623,302</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfer In	\$ -	\$ -	\$ 2,500	\$ 2,500
7080	Net Other Financing Sources (Uses)	\$ -	\$ -	\$ 2,500	\$ 2,500
1200	Net Change in Fund Balance	\$ -	\$ -	\$ 625,802	\$ 625,802
0100	Fund Balance - Beginning (July 1)	360,450	360,450	360,450	-
3000	Fund Balance - Ending (June 30)	<u>\$ 360,450</u>	<u>\$ 360,450</u>	<u>\$ 986,252</u>	<u>\$ 625,802</u>

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 AS OF JUNE 30, 2021

<u>Data Control Codes</u>		<u>Response</u>
<u>SF1</u>	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
<u>SF2</u>	Were there any disclosures in the Annual Financial Report and / other sources information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
<u>SF3</u>	<p>Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warranty hold was issued, the school district is considered to not have made timely payments).</p> <p>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.</p> <p>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.</p>	Yes
<u>SF4</u>	Was the school district issued a warrant hold? Even if the issue surrounding the initial hold was resolved and cleared within 30 days, the shool district is considered to have been insued a warrant hold.	No
<u>SF5</u>	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
<u>SF6</u>	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
<u>SF7</u>	Did the school post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Administrative Code and other statues, laws and rules that were in effect at the school districts fical year-end?	Yes
<u>SF8</u>	Did the school board members discuss the school districts property value at a board meeting within 120 days before the school district adopted its budget?	Yes
<u>SF9</u>	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ -0-

FEDERAL AWARDS SECTION

LONE OAK INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2021

(01) Federal Grantor/ Pass Through Grantor/ Program Title	(02) Federal CFDA Number	(02A) Pass-Through Grantor Identifying Number	(03) Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through the Texas Education Agency:			
Elementary and Secondary Schools Emergency Relief - I*	84.425d	20521001116906	\$ 130,094
Elementary and Secondary Schools Emergency Relief - II*	84.425d	21521001116906	26,898
Elementary and Secondary Schools Emergency Relief - III*	84.425u	21528001116906	268,726
Total CFDA 84.425			<u>425,718</u>
Instructional Continuity	84.377a	17610740116906	10,500
ESSA Title I Part A - Improving Basic Programs	84.010a	21610101116906	169,132
ESSA Title II Part A - Supporting Effective Education	84.367a	21686001116906	22,936
ESSA Title IV Part A - Student Support & Academic Achievement	84.424a	21680101116906	12,296
Total Passed through Texas Education Agency			<u>214,864</u>
Total Department of Education			<u>640,582</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Texas Department of Agriculture:			
School Breakfast Program	10.553	600	81,245
National School Lunch Program	10.555	600	264,682
USDA Food Distribution	10.550	091015A	25,972
National School Lunch Program - Capital Grant	10.555	600	50,930
Total Department of Agriculture			<u>422,829</u>
Total Expenditures of Federal Awards			<u>\$ 1,063,411</u>

* Denotes Major Program

LONE OAK INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal activity of the Lone Oak Independent School District and is presented on the modified accrual basis of accounting. Expenditures are recognized in the accounting period in which a fund liability occurs. Funds are considered earned to the extent of expenditures made.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. No provision has been made for amounts on hand at June 30, 2021.

C. Reconciliation of Federal Revenue with Financial Statements

The District records amounts received from the federal government or other recipients of federal grant as federal revenue in the financial statements. This reconciliation identifies the difference between the financial statement revenues and the schedule of expenditures of federal awards:

Total Federal Expenditures (Exhibit K-1)	\$ 276,350
School Health and Resources	<u>241,385</u>
Federal Revenue (Exhibit C-3)	<u>\$ 1,304,796</u>

Financial Advisory Services
Provided By:

