

OFFICIAL STATEMENT
Dated: January 12, 2022

NEW ISSUE: BOOK-ENTRY-ONLY

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

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

\$3,620,000
CUSHING INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Nacogdoches and Rusk Counties, Texas)
Unlimited Tax Refunding Bonds, Series 2022

Dated Date: January 15, 2022

Due: February 15, as shown on page ii

The Cushing Independent School District Unlimited Tax Refunding Bonds, Series 2022 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and an order (the "Bond Order") authorizing the issuance of the Bonds adopted on November 15, 2021 by the Board of Trustees (the "Board") of the Cushing Independent School District (the "District"). As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials (each a "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate, together with the Bond Order, are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2022, which completed the sale of the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

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

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

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").

The Bonds are not subject to redemption prior to stated maturity. (see "THE BONDS – No Redemption")

MATURITY SCHEDULE
(On Page ii)

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

\$3,620,000
CUSHING INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Nacogdoches and Rusk Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2022

MATURITY SCHEDULE
Base CUSIP No.: 231651 ⁽¹⁾

Maturity Date 2/15	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2023	\$440,000	4.00%	0.40%	ER7
2024	465,000	4.00	0.55	ES5
2025	495,000	4.00	0.70	ET3
2026	520,000	4.00	0.80	EU0
2027	540,000	4.00	0.95	EV8
2028	570,000	4.00	1.10	EW6
2029	590,000	4.00	1.20	EX4

(Interest to accrue from the Dated Date)

⁽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 Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CUSHING INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Lynn Moore, President	2006	2022	Retired
Jared LoStracco, Vice President	2017	2022	Self Employed
Bobby Brashears, Secretary	2008	2024	Self Employed
Jamie Dawson, Member	2018	2022	Huntsville Prison System
Carrie Duncan, Interim Member	2021	2022	Business Owner
David Gresham, Member	2020	2024	Retired
Joseph Owens, Member	2020	2024	Self Employed

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Dr. Brandon Enos ⁽¹⁾	Superintendent	15 Years	
Martha Lee	Business Manager	30 Years	14 Years

(1) The Board unanimously selected Dr. Enos to serve as Superintendent at a meeting held November 15, 2021.

CONSULTANTS AND ADVISORS

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

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Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Cushing Independent School District (the "District") is a political subdivision of the State of Texas located in Nacogdoches and Rusk 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 Bonds are being issued in the principal amount of \$3,620,000 pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207") and the order (the "Bond Order") adopted by the Board on November 15, 2021. As permitted by provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials, each a "Pricing Officer", to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate and the Bond Order, are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2022, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. (See "PLAN OF FINANCING - Purpose", "PLAN OF FINANCING - Refunded Bonds" and "Schedule I – Schedule of Refunded Bonds").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct 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").
No Redemption	The Bonds are not subject to redemption prior to stated maturity.
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 (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
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 (as defined herein) of the Texas Education Agency. The District's unenhanced, underlying rating, including the Bonds, is "A" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the 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, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C - "Form of Legal Opinion of Bond Counsel.")
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").
Payment Record	The District has not defaulted since 1933 when bonds were refunded at par with a reduction in interest rate.
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., San Antonio, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about February 9, 2022.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page, Schedule I and the Appendices attached hereto, has been prepared by the Cushing Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Nacogdoches and Rusk Counties, Texas, in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2022 (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Bond Order (defined below) adopted by the Board of Trustees of the District (the "Board") on November 15, 2021 authorizing the issuance of the Bonds 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 Cushing Independent School District, 1088 Bearkat Drive, Cushing, Texas 75760 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024 by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

COVID-19

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

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

To stabilize funding expectations, 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 recently extended for the remainder of the 2020-21 school year (the fourth, fifth, and sixth six-week attendance reporting periods). In order to qualify, a district must meet certain criteria established by the TEA related to on-campus participation rates during the sixth six-week attendance reporting period. A district would be eligible for the ADA hold

harmless protection for the fourth, fifth, and sixth 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.

PLAN OF FINANCING

Purpose

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

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with BOKF, NA, Dallas, Texas (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of November 15, 2021 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District, with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Bonds, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Escrowed Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement. By the deposit of the cash and Escrowed Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate of SAMCO Capital Markets, Inc. that as a result of such defeasance the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment. Defeasance of the Refunded Bonds will cancel the Permanent School Fund Guarantee relating thereto.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with a cash contribution from the District, will be applied approximately as follows:

Sources	
Par Amount of Bonds	\$ 3,620,000.00
Premium	449,819.80
Accrued Interest	9,653.33
Issuer Contribution	49,908.33
Total Sources of Funds	\$ 4,129,381.46
Uses	
Deposit to Escrow Fund	\$ 4,052,187.50
Costs of Issuance	57,159.81
Purchaser's Discount	10,380.82
Deposit to Interest and Sinking Fund	9,653.33
Total Uses of Funds	\$ 4,129,381.46

THE BONDS

Authorization

The Bonds are being issued in the principal amount of \$3,620,000 pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended (Chapter 1207") and an order (the "Bond Order") adopted on November 15, 2021 by the Board, which authorizes the issuance of the Bonds. As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials, each a "Pricing Officer", to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate and the Bond Order are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer on January 12, 2022, which completed the sale of the Bonds.

General Description

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

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

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books 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. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company, New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

No Redemption

The Bonds are not subject to redemption prior to stated maturity.

Security

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

Permanent School Fund Guarantee

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

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

Legality

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

Payment Record

The District has not defaulted since 1933 when bonds were refunded at par with a reduction in interest rate.

Amendments

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

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

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose.

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

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds, and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order and the continuation thereof for a period of 60 days after notice of default is given by the District by any owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by

direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or any notices, to Direct Participants, (2) DTC or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds) or any 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 Direct Participants are on file with DTC.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as, 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.

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

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

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

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Purchaser take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

Initial Registration

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

Future Registration

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange 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.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

Audited financial information for the SBOE (as defined herein) financial portfolios of the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The State School Land Board's ("SLB") land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2020, filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2020 is derived from the audited financial

statements of the PSF, which are included in the Annual Report when and as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund

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

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

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

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

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

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

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

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

Texas law assigns to the SLB the ability to control of the Fund's land and mineral rights and make investments in real assets. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner"). See "2021 Legislation – SB 1232" for proposed changes in the management of Fund assets by the SLB. The SLB manages the proceeds of the land and mineral rights that are 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	<u>\$4,050.6</u>

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

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

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

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

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the

stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education

Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Education Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBG 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 “CDBG Capacity”), which further increased the amount of the CDBG 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 CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBGP Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBGP Capacity to begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022) but authorized the SBOE discretion to increase the CDBGP Capacity incrementally in the intervening four fiscal years, beginning with fiscal year 2018 by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017, which it has done.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provided that the Education Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Education Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount

equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At July 31, 2021, the Charter District Reserve Fund contained \$63,249,051, which represented approximately 2.02% of the guaranteed charter district bonds. In 2018, the management of the Reserve Fund was transferred from the Texas Comptroller to the PSF division of TEA, where it is held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

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

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon on-going compliance with State law and regulations, which are monitored by TEA. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

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

Infectious Disease Outbreak

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

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

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of July 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, 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 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2016	3,244	\$67,342,303,445	35	\$961,025,000	3,279	\$68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 ⁽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. At August 31, 2020, the remaining commitments totaled approximately \$2.73 billion.

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

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

quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

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

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

Other Events and Disclosures

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

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

The TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_State_ment_-_Bond_Guarantee_Program/. 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 for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

2021 Regular and Special Legislative Sessions

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

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

The District can make no representations or predictions regarding any actions the Legislature has taken or may take during any session concerning the substance or the effect of any legislation that previously passed, or may be passed during any previous session or a future session of the Legislature.

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

Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

Enrichment Tax Rate

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to 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 2020-2021 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 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 fiscal year, the District was designated as an "excess local revenue" Chapter 49 school district by the TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2021-22 school year, for the purpose of implementing permitted wealth equalization options.

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

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Nacogdoches Central Appraisal District and the Rusk Central 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 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 presentation 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 – 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 – 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 – 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.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, \$50.6 million for the 2021 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 13, 1969 under Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code).

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

For the 2020 and subsequent tax years, the maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate

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

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

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

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

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 Nacogdoches and Rusk Counties. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Grayson and Collin Counties.

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

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

The District collects an additional 15% 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 Nacogdoches and Rusk Central Appraisal Districts.

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 does not have any current tax abatements.

The District does not grant any 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 August 31, 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 G – 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 H. Defined 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.

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.

RATING

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 rating is given, and the District makes no representations as to the appropriateness of the rating. The rating of the Bonds is not a recommendation to buy, sell or hold the Bonds, and there is no assurance that the rating will continue for any given period of time, or that the 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 the 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 approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds.

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

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon the Sufficiency Certificate and (a) 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 Refunded Bonds and the property financed or refinanced therewith, (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, and (d) the certification as to the sufficiency of the deposit to the escrow fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

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.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

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 State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 State Securities Board to provide such services.

Investment Policies

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

Under State law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment 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 District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

At the end of October 2021, the District had approximately \$2,647,429 (unaudited) invested in Texpool (which is a government investment pool that generally has the characteristics of a money-market mutual fund), and \$5,738,357 (unaudited) in an interest bearing account at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the SEC under the United States Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for

registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

FINANCIAL ADVISOR

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE OF INFORMATION

The District is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the District who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000. This exception allows the District to not file annual updates to all financial and operating data that is included in this Official Statement.

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 Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

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

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

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

Notice of Certain Events

The District will also provide 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". In the Order, the District adopted policies and procedures to ensure timely compliance with continuing disclosure undertakings. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), redemption prior to stated maturity, or liquidity enhancement. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines and be accompanied by identifying information as required by the MSRB. Access to such filings will be provided, without charge to the general public, by the MSRB via the EMMA System at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount and maturity value of the outstanding Bonds consent to the amendment 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 registered 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 so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

LITIGATION

In the opinion of District officials, except as may be described in this Official Statement, 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. See "NO LITIGATION AND OFFICIAL STATEMENT CERTIFICATION".

FORWARD-LOOKING STATEMENTS

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

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

WINNING BIDDER

On January 12, 2022, the Bonds were awarded to an investment bank or group of investment banks managed by BOK Financial Securities, Inc. (the "Purchaser"). The initial reoffering yields for the Bonds were supplied to the District by the Purchaser. The initial reoffering yields shown on page ii hereof will produce compensation to the Purchaser of approximately \$10,380.82.

NO LITIGATION AND OFFICIAL STATEMENT CERTIFICATION

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

CONCLUDING STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer 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 Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Bond Order authorized the Pricing Officer to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Purchaser. This Official Statement has been approved by the Pricing Officer of the District for distribution in accordance with the provisions of the Rule.

/s/ Dr. Brandon Enos

Pricing Officer

CUSHING INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds

Unlimited Tax Refunding Bonds, Series 2014

Maturities Being Redeemed	Original CUSIP	Principal Amount Outstanding	Interest Rate	Principal Amount Being Refunded	Call Date	Principal Amount Unrefunded
2/15/2023	231651EJ5	\$ 500,000.00	3.000%	\$ 500,000.00	February 15, 2022	-
2/15/2024	231651EK2	520,000.00	3.000%	520,000.00	February 15, 2022	-
2/15/2025	231651EL0	545,000.00	3.500%	545,000.00	February 15, 2022	-
2/15/2026	231651EM8	570,000.00	3.500%	570,000.00	February 15, 2022	-
2/15/2027	231651EN6	590,000.00	3.500%	590,000.00	February 15, 2022	-
2/15/2028	231651EP1	620,000.00	3.500%	620,000.00	February 15, 2022	-
2/15/2029	231651EQ9	640,000.00	3.500%	640,000.00	February 15, 2022	-
		<u>\$ 3,985,000.00</u>		<u>\$ 3,985,000.00</u>		<u>\$ -</u>

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APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

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CUSHING INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2021/22 Total Valuation.....		\$	538,321,130
Less Exemptions & Deductions ⁽²⁾ :			
State Homestead Exemption	\$	21,923,050	
State Over-65 Exemption		4,164,240	
Disabled Exemption		1,227,560	
Local Option Over-65 Exemption		7,087,550	
Local Optional Percentage Exemption Loss		15,988,410	
Veterans Exemption		323,010	
Pollution Control Exemption		3,530,300	
Productivity Loss		296,855,700	
Disaster Exemption		244,050	
Homestead Cap Loss		921,650	
	\$	352,265,520	
2021/22 Certified Net Taxable Valuation		\$	186,055,610

(1) Source: Nacogdoches Central and Rusk County Appraisal Districts Certified Values as of August 2021. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in this Official Statement.

(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled \$3,852,129 for 2020/21.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding	\$	9,860,000
Less: The Refunded Bonds		(3,985,000)
Plus: The Refunding Bonds		3,620,000
Total Unlimited Tax Bonds		9,495,000
Less: Interest & Sinking Fund Balance (As of August 31, 2021) ⁽¹⁾		(1,794,098)
Net General Obligation Debt	\$	7,700,902

Ratio of Net G.O. Debt to Net Taxable Valuation ⁽²⁾ 4.14%

2022 Population Estimate ⁽³⁾	3,268
Per Capita Net Taxable Valuation	\$56,933
Per Capita Net G.O. Debt	\$2,356

(1) Source: Cushing ISD Audited Financial Statement.

(2) The ratio of Net Obligations to Net Taxable Valuation above does not take into account funding assistance for voted bond debt service received from the State of Texas. The District expects to receive state funding assistance for voted bond debt service equal to approximately 3% of its debt service requirements for its unlimited tax debt service for the 2021/22 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see "Audited Financial Report Fiscal Year Ended August 31, 2021" in Appendix D for more information relative to the District's outstanding obligations.

(3) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable		% Collections ⁽⁴⁾	
	Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 337,012,220 ⁽¹⁾	\$ 1.3700 ⁽⁶⁾	98.67%	99.94%
2007/08	401,071,688 ⁽¹⁾	1.0400 ⁽⁶⁾	98.88%	100.59%
2008/09	456,975,550 ⁽¹⁾	1.0400	98.75%	99.81%
2009/10	472,596,900 ⁽¹⁾	1.2800	98.73%	99.65%
2010/11	421,032,550 ⁽¹⁾	1.2800	98.76%	99.95%
2011/12	323,871,200 ⁽¹⁾	1.4000	98.39%	99.64%
2012/13	443,242,330 ⁽¹⁾	1.3000	98.62%	100.25%
2013/14	531,502,310 ⁽¹⁾	1.3000	98.57%	99.78%
2014/15	540,409,482 ⁽¹⁾	1.3000	98.58%	99.85%
2015/16	526,443,868 ^{(1) (3)}	1.3000	98.81%	100.50%
2016/17	499,422,878 ^{(1) (3)}	1.3000	97.60%	98.59%
2017/18	508,811,510 ^{(1) (3)}	1.3000	97.75%	98.60%
2018/19	504,019,600 ^{(1) (3)}	1.3000	98.49%	99.77%
2019/20	513,421,210 ^{(1) (3)}	1.2300 ⁽⁷⁾	96.94%	98.42%
2020/21	513,223,963 ^{(1) (3)}	1.2264	95.76%	98.24%
2021/22	186,055,610 ^{(2) (3)}	1.2234		

(1) Source: Comptroller of Public Accounts - Property Tax Division. The 2020/21 Net Taxable Value is Under Review.

(2) Source: Nacogdoches Central and Rusk County Appraisal Districts Certified Values as of August 2021.

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

(4) Source: Cushing ISD Audited Financial Statements.

(5) Excludes penalties and interest.

(6) The decline in the District's Maintenance & Operation Tax from the 2006/07 fiscal year to the 2007/08 fiscal year is a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

(7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"- Local Funding for School Districts" in this Official Statement.

TAX RATE DISTRIBUTION

	2017/18	2018/19	2019/20 ⁽¹⁾	2020/21	2021/22
Maintenance & Operations	\$1.0400	\$1.0400	\$0.9700	\$0.9664	\$0.9634
Debt Service	\$0.2600	\$0.2600	\$0.2600	\$0.2600	\$0.2600
Total Tax Rate	\$1.3000	\$1.3000	\$1.2300	\$1.2264	\$1.2234

(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	\$ 337,012,220	\$ -	0.00%
2007/08	401,071,688	-	0.00%
2008/09	456,975,550	10,750,000	2.35%
2009/10	472,596,900	10,470,000	2.22%
2010/11	421,032,550	10,139,000	2.41%
2011/12	323,871,200	9,790,000	3.02%
2012/13	443,242,330	8,821,000	1.99%
2013/14	531,502,310	14,941,000	2.81%
2014/15	540,409,482	14,308,000	2.65%
2015/16	526,443,868	13,662,000	2.60%
2016/17	499,422,878	12,997,000	2.60%
2017/18	508,811,510	11,760,000	2.31%
2018/19	504,019,600	11,140,000	2.21%
2019/20	513,421,210	10,510,000	2.05%
2020/21	513,223,963 ⁽³⁾	9,860,000	1.92%
2021/22	186,055,610 ⁽⁴⁾	8,825,000 ⁽⁵⁾	4.74%

(1) At fiscal year end.

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

(3) The 2020/21 Net Taxable Value is Under Review.

(4) Source: Nacogdoches Central and Rusk County Appraisal Districts Certified Values as of August 2021. Nacogdoches Power LLC was previously sold to the City of Austin, Texas, removing the property from the tax roll (as the city is an exempt entity). The District negotiated a settlement with the city related to the exemption of the property and previously abated taxes. The City agreed to make impact fee payments of \$600,000 per year from 2020-2029 and also provide additional funds for technical training.

(5) Includes the Bonds and excludes the Refunded Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Nacogdoches County	\$ 3,045,000	12.37%	\$ 376,667
Rusk County	2,565,000	0.16%	4,104
Total Overlapping Debt ⁽¹⁾			\$ 380,771
Cushing Independent School District ⁽²⁾			7,700,902
Total Direct & Overlapping Debt			\$ 8,081,673
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		4.34%	
Per Capita Direct & Overlapping Debt		\$2,473	

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

(2) Includes the Bonds and excludes the Refunded Bonds.

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

PRINCIPAL TAXPAYERS

2021/22 Top Ten Taxpayers ⁽¹⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
TransCanada Keystone Pipeline	Pipeline	\$ 23,010,920	12.37%
Oncor Electric Delivery Co., LLC	Electric Utility	17,090,470	9.19%
Rockcliff Energy Operating, LLC	Natural Gas	14,632,800	7.86%
ExxonMobil Corporation	Oil & Gas	12,773,040	6.87%
XTO Energy, Inc.	Oil & Gas	4,400,380	2.37%
Kinder Morgan Tejas Pipeline	Pipeline	3,557,060	1.91%
Midcoast Pipelines (ETX) LP	Pipeline	2,821,800	1.52%
Matthew Brandon King Trust	Commercial Land	2,021,580	1.09%
AEP Southwestern Electrical Power Co.	Electric Utility	392,470	0.21%
Treadwell Land & Cattle Co.	Ranch	246,140	0.13%
		<u>\$ 80,946,660</u>	<u>43.51%</u>

2020/21 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
TransCanada Keystone Pipeline	Pipeline	\$ 24,633,530	4.80%
Oncor Electric Delivery Co., LLC	Electric Utility	17,437,270	3.40%
Rockcliff Energy Operating, LLC	Natural Gas	15,137,910	2.95%
ExxonMobil Corporation	Oil & Gas	12,881,080	2.51%
XTO Energy, Inc.	Oil & Gas	5,658,010	1.10%
Midcoast Pipelines (ETX) LP	Pipeline	3,812,160	0.74%
Kinder Morgan Tejas Pipeline	Pipeline	3,430,170	0.67%
Matthew Brandon King Trust	Commercial Land	1,860,360	0.36%
AEP Southwestern Electrical Power Co.	Electric Utility	394,610	0.08%
Treadwell Land & Cattle Co.	Ranch	216,710	0.04%
		<u>\$ 85,461,810</u>	<u>16.65%</u>

2019/20 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Southern Power Co.	Electric Utility	\$ 40,000,000	7.79%
TransCanada Keystone Pipeline	Pipeline	26,330,930	5.13%
Rockcliff Energy Operating, LLC	Natural Gas	18,005,600	3.51%
Oncor Electric Delivery Co., LLC	Electric Utility	14,275,410	2.78%
ExxonMobil Corporation	Oil & Gas	13,319,520	2.59%
XTO Energy, Inc.	Oil & Gas	11,384,310	2.22%
Midcoast Pipelines (ETX) LP	Pipeline	3,761,440	0.73%
Kinder Morgan Tejas Pipeline	Pipeline	3,130,540	0.61%
AEP Southwestern Electrical Power Co.	Electric Utility	395,280	0.08%
Treadwell Land & Cattle Co.	Ranch	211,900	0.04%
		<u>\$ 130,814,930</u>	<u>25.48%</u>

(1) Source: Nacogdoches Central and Rusk County Appraisal Districts.

(2) Source: Comptroller of Public Accounts - Property Tax Division. The 2020/21 Net Taxable Value is Under Review.

Note: As shown in the table above, the total combined top ten taxpayers in the District currently account for over 43% of the District's tax base. In addition, the top taxpayer in the District currently accounts for over 12% of the District's tax base, thereby creating a concentration risk for the District. Any adverse developments related to the foregoing taxpayers affecting their ability to continue to conduct business at their respective locations within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness.

The valuation of power utilities within the State, as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; private power generation facilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. In addition, a portion of the District's assessed valuation is comprised of industries related to oil and gas, which are subject to fluctuation in terms of market valuation and availability. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom.

Ad valorem taxation of agricultural land is based upon production as opposed to its appraised valuation. The property categorized within the farming industry is likely receiving an agricultural exemption, therefore causing the District to receive limited tax revenue therefrom relative to the appraisal value.

If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

<u>Category</u>	<u>2021/22 ⁽¹⁾</u>	<u>% of Total</u>	<u>2020/21 ⁽²⁾</u>	<u>% of Total</u>	<u>2019/20 ⁽²⁾</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 49,406,580	9.18%	\$ 45,381,390	5.60%	\$ 44,481,150	5.50%
Real, Residential, Multi-Family	-	0.00%	-	0.00%	-	0.00%
Real, Vacant Lots/Tracts	2,469,060	0.46%	2,254,940	0.28%	2,333,550	0.29%
Real, Qualified Land & Improvements	321,419,900	59.71%	266,544,054	32.87%	265,051,670	32.74%
Real, Non-Qualified Land & Improvements	61,258,000	11.38%	56,952,690	7.02%	54,102,060	6.68%
Real, Commercial & Industrial	3,466,610	0.64%	333,989,360	41.18%	327,160,440	40.42%
Oil & Gas	10,504,370	1.95%	12,599,340	1.55%	25,095,970	3.10%
Utilities	81,697,190	15.18%	85,166,600	10.50%	83,899,710	10.36%
Tangible Personal, Commercial & Industrial	2,232,860	0.41%	2,539,872	0.31%	2,480,700	0.31%
Tangible Personal, Mobile Homes & Other	5,865,650	1.09%	5,574,100	0.69%	4,853,950	0.60%
Tangible Personal, Residential Inventory	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Special Inventory	910	0.00%	-	0.00%	-	0.00%
Total Appraised Value	\$ 538,321,130	100.00%	\$ 811,002,346	100.00%	\$ 809,459,200	100.00%
Less:						
Homestead Cap Adjustment	\$ 921,650		\$ 335,700		\$ 455,020	
Productivity Loss	296,855,700		245,412,253		244,348,730	
Exemptions ⁽³⁾	54,488,170		52,030,430		51,234,240	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 352,265,520</u>		<u>\$ 297,778,383</u>		<u>\$ 296,037,990</u>	
Net Taxable Assessed Valuation	\$ 186,055,610 ⁽⁵⁾		\$ 513,223,963		\$ 513,421,210	

<u>Category</u>	<u>2018/19 ⁽²⁾</u>	<u>% of Total</u>	<u>2017/18 ⁽²⁾</u>	<u>% of Total</u>	<u>2016/17 ⁽²⁾</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 40,153,580	5.36%	\$ 38,966,050	5.18%	\$ 37,275,940	5.02%
Real, Residential, Multi-Family	-	0.00%	-	0.00%	-	0.00%
Real, Vacant Lots/Tracts	1,971,260	0.26%	2,034,170	0.27%	1,882,710	0.25%
Real, Qualified Land & Improvements	220,064,800	29.36%	219,210,800	29.12%	219,310,160	29.54%
Real, Non-Qualified Land & Improvements	48,798,720	6.51%	48,556,790	6.45%	47,328,670	6.37%
Real, Commercial & Industrial	331,989,640	44.29%	336,950,980	44.77%	332,495,890	44.78%
Oil & Gas	24,697,240	3.29%	24,353,170	3.24%	25,871,850	3.48%
Utilities	75,034,260	10.01%	75,678,990	10.05%	71,261,190	9.60%
Tangible Personal, Commercial & Industrial	2,452,930	0.33%	3,017,050	0.40%	3,498,690	0.47%
Tangible Personal, Mobile Homes & Other	4,457,210	0.59%	3,910,020	0.52%	3,567,920	0.48%
Tangible Personal, Residential Inventory	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value	\$ 749,619,640	100.00%	\$ 752,678,020	100.00%	\$ 742,493,020	100.00%
Less:						
Homestead Cap Adjustment	\$ 282,910		\$ 323,040		\$ 326,040	
Productivity Loss	199,501,990		198,902,450		199,158,430	
Exemptions ⁽³⁾	45,815,140		44,641,020		43,585,672	
Total Exemptions/Deductions ⁽⁴⁾	<u>\$ 245,600,040</u>		<u>\$ 243,866,510</u>		<u>\$ 243,070,142</u>	
Net Taxable Assessed Valuation	\$ 504,019,600		\$ 508,811,510		\$ 499,422,878	

(1) Source: Nacogdoches Central and Rusk County Appraisal Districts Certified Values as of August 2021.

(2) Source: Comptroller of Public Accounts - Property Tax Division. The 2020/21 Net Taxable Value is Under Review.

(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.

(5) Nacogdoches Power LLC was previously sold to the City of Austin, Texas, removing the property from the tax roll (as the city is an exempt entity). The District negotiated a settlement with the city related to the exemption of the property and previously abated taxes. The city agreed to make impact fee payments of \$600,000 per year from 2020 through 2029; the City is also required to provide \$60,000 for the District's technical training each fiscal year through 2029.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year	Outstanding	Less:	Plus:		Bonds	Percent of
Ending 8/31	Bonds	Refunded	The	Total	Unpaid	Principal
		Bonds	Bonds		At Year End	Retired
2022	\$ 670,000.00	\$ -	\$ -	\$ 670,000.00	\$8,825,000.00	7.06%
2023	685,000.00	500,000.00	440,000.00	625,000.00	8,200,000.00	13.64%
2024	710,000.00	520,000.00	465,000.00	655,000.00	7,545,000.00	20.54%
2025	740,000.00	545,000.00	495,000.00	690,000.00	6,855,000.00	27.80%
2026	770,000.00	570,000.00	520,000.00	720,000.00	6,135,000.00	35.39%
2027	795,000.00	590,000.00	540,000.00	745,000.00	5,390,000.00	43.23%
2028	825,000.00	620,000.00	570,000.00	775,000.00	4,615,000.00	51.40%
2029	850,000.00	640,000.00	590,000.00	800,000.00	3,815,000.00	59.82%
2030	900,000.00			900,000.00	2,915,000.00	69.30%
2031	935,000.00			935,000.00	1,980,000.00	79.15%
2032	970,000.00			970,000.00	1,010,000.00	89.36%
2033	<u>1,010,000.00</u>	<u> </u>	<u> </u>	<u>1,010,000.00</u>	-	100.00%
Total	<u><u>\$9,860,000.00</u></u>	<u><u>\$3,985,000.00</u></u>	<u><u>\$3,620,000.00</u></u>	<u><u>\$9,495,000.00</u></u>		

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Less:	Plus:			Combined Total ^{(1) (2) (3)}
		Refunded Debt Service ⁽¹⁾	The Bonds ⁽²⁾			
			Principal	Interest	Total	
2022	\$ 1,012,125.00	\$ 84,466.67	\$ -	\$ 84,466.67	\$ 84,466.67	\$ 1,012,125.00
2023	1,006,337.50	626,875.00	440,000.00	136,000.00	576,000.00	955,462.50
2024	1,009,475.00	631,575.00	465,000.00	117,900.00	582,900.00	960,800.00
2025	1,015,400.00	639,237.50	495,000.00	98,700.00	593,700.00	969,862.50
2026	1,018,975.00	644,725.00	520,000.00	78,400.00	598,400.00	972,650.00
2027	1,016,587.50	644,425.00	540,000.00	57,200.00	597,200.00	969,362.50
2028	1,017,981.25	653,250.00	570,000.00	35,000.00	605,000.00	969,731.25
2029	1,013,150.00	651,200.00	590,000.00	11,800.00	601,800.00	963,750.00
2030	1,031,137.50					1,031,137.50
2031	1,031,731.25					1,031,731.25
2032	1,029,800.00					1,029,800.00
2033	1,030,200.00					1,030,200.00
	<u>\$ 12,232,900.00</u>	<u>\$ 4,575,754.17</u>	<u>\$ 3,620,000.00</u>	<u>\$ 619,466.67</u>	<u>\$ 4,239,466.67</u>	<u>\$ 11,896,612.50</u>

(1) Reflects the standard, budgeted interest on the existing bonds in the amount of \$49,908.33 that must be paid at the closing of the refunding bonds.

(2) Includes accrued interest in the amount of \$9,653.33.

(3) Based on its wealth per student, the District expects to receive approximately \$30,000 of 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.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 1,031,731.25
Projected State Financial Assistance for Debt Service in 2021/22 ⁽²⁾	30,000.00
Projected Use of Settlement Money from Tax Loss ⁽³⁾	600,000.00
Projected Net Debt Service Requirement	\$ 401,731.25
 \$0.22033 Tax Rate @ 98% Collections Produces ⁽⁴⁾	 \$ 401,731.25
 2021/22 Certified Net Taxable Valuation	 \$ 186,055,610

(1) Includes the Bonds and excludes the Refunded Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

(3) See footnote 4 under "VALUATION AND FUNDED DEBT HISTORY" and footnote 5 under "CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY" in this Appendix A for further information regarding these settlement funds.

(4) Bonds issued for new construction purposes are subject to the 50 cent test, and if the District uses State tier one funds to pass the test, under current law it 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

The District currently does not have any authorized but unissued unlimited ad valorem tax bonds from any bond 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 August 31				
	2017	2018	2019	2020	2021
Beginning Fund Balance	\$ 2,397,929	\$ 2,773,248	\$ 4,133,553	\$ 4,724,183	\$ 4,770,728
Revenues:					
Local and Intermediate Sources	\$ 2,128,767	\$ 2,251,497	\$ 2,436,443	\$ 2,007,543	\$ 1,929,629
State Sources	3,987,218	3,834,224	3,115,657	3,882,196	4,946,812
Federal Sources & Other	15,096	49,086	495,027	108,851	226,451
Total Revenues	\$ 6,131,081	\$ 6,134,807	\$ 6,047,127	\$ 5,998,590	\$ 7,102,892
Expenditures:					
Instruction	\$ 2,888,903	\$ 2,477,664	\$ 2,658,148	\$ 3,001,190	\$ 2,972,109
Instructional Resources & Media Services	139,118	126,364	84,098	91,655	118,005
Curriculum & Instructional Staff Development	4,183	1,504	646	24	1,300
Instructional Leadership	5,363	10,998	11,311	13,733	13,518
School Leadership	276,059	302,077	321,288	337,635	343,545
Guidance, Counseling & Evaluation Services	88,211	70,863	58,163	89,836	103,051
Health Services	47,517	2,018	2,077	16,295	23,259
Student (Pupil) Transportation	224,352	183,798	353,276	143,015	182,985
Food Services	9,332	8,696	-	-	9,504
Cocurricular/Extracurricular Activities	413,517	288,163	289,436	297,992	318,401
General Administration	548,148	389,482	449,456	392,262	392,339
Plant Maintenance and Operations	707,818	619,338	660,552	1,055,206	958,555
Security and Monitoring Services	66,311	64,699	56,001	58,477	45,717
Data Processing Services	74,565	109,116	339,739	232,491	261,167
Community Services	-	1,049	1,458	1,306	396
Capital Lease	30,818	-	-	-	-
Payments to Shared Service Agreements	176,105	118,580	169,839	210,875	253,217
Total Expenditures	\$ 5,700,320	\$ 4,774,409	\$ 5,455,488	\$ 5,941,992	\$ 5,997,068
Excess (Deficiency) of Revenues over Expenditures	\$ 430,761	\$ 1,360,398	\$ 591,639	\$ 56,598	\$ 1,105,824
Other Resources and (Uses):					
Transfer In	\$ -	\$ 1	\$ -	\$ -	\$ -
Transfer Out	(55,442)	(94)	(1,009)	(10,053)	87,038
Total Other Resources (Uses)	\$ (55,442)	\$ (93)	\$ (1,009)	\$ (10,053)	\$ 87,038
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 375,319	\$ 1,360,305	\$ 590,630	\$ 46,545	\$ 1,192,862
Ending Fund Balance	\$ 2,773,248	\$ 4,133,553	\$ 4,724,183	\$ 4,770,728	\$ 5,963,590

(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 2020/21 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2017	2018	2019	2020	2021
Revenues:					
Program Revenues:					
Charges for Services	\$ 75,536	\$ 247,684	\$ 323,093	\$ 133,208	\$ 173,239
Operating Grants and Contributions	478,655	456,269	891,739	1,322,793	1,113,074
General Revenues:					
Property Taxes Levied for General Purposes	1,996,073	2,203,943	2,224,314	1,960,700	1,699,104
Property Taxes Levied for Debt Service	1,386,589	1,316,846	1,303,620	854,551	473,722
Grants and Contributions Not Restricted	4,017,292	3,899,533	3,625,980	4,003,791	5,183,567
Investment Earnings	21,640	30,875	28,434	66,249	6,877
Miscellaneous	104,882	20,216	116,845	6,659	1,409,434
Total Revenue	<u>\$ 8,080,667</u>	<u>\$ 8,175,366</u>	<u>\$ 8,514,025</u>	<u>\$ 8,347,951</u>	<u>\$ 10,059,017</u>
Expenses:					
Instruction	\$ 3,476,321	\$ 2,668,640	\$ 3,378,491	\$ 4,016,676	\$ 3,861,116
Instructional Resources & Media Services	140,494	109,286	92,911	107,100	125,518
Curriculum & Staff Development	4,183	3,154	8,306	1,899	1,300
Instructional Leadership	7,255	13,675	16,413	18,953	22,146
School Leadership	276,059	254,070	355,190	393,822	362,968
Guidance, Counseling & Evaluation Services	88,211	59,264	63,961	106,462	110,031
Health Services	47,517	2,018	2,077	16,295	23,259
Student Transportation	282,454	226,384	265,048	232,864	255,509
Food Service	424,006	359,330	359,749	421,580	386,553
Cocurricular/Extracurricular Activities	774,781	771,554	817,996	783,328	807,853
General Administration	603,711	400,500	534,495	492,460	462,864
Plant Maintenance & Operations	718,557	591,676	601,620	558,862	766,852
Security and Monitoring Services	66,311	56,050	71,981	103,249	47,772
Data Processing Services	74,565	95,914	265,082	282,351	289,265
Community Services	-	1,049	1,458	1,306	396
Debt Service	426,896	402,375	369,011	355,954	336,521
Capital Outlay	1,351	-	-	-	-
Payments to Fiscal Agent/Member Districts of SSA	176,105	118,580	169,839	210,875	253,217
Total Expenditures	<u>\$ 7,588,777</u>	<u>\$ 6,133,519</u>	<u>\$ 7,373,628</u>	<u>\$ 8,104,036</u>	<u>\$ 8,113,140</u>
Change in Net Assets	\$ 491,890	\$ 2,041,847	\$ 1,140,397	\$ 243,915	\$ 1,945,877
Beginning Net Assets	\$ 9,871,912	\$ 10,361,736	\$ 9,406,660	\$ 10,547,057	\$ 10,790,972
Prior Period Adjustment	\$ (2,066)	\$ (2,996,923) ⁽²⁾	\$ -	\$ -	\$ -
Ending Net Assets	<u>\$ 10,361,736</u>	<u>\$ 9,406,660</u>	<u>\$ 10,547,057</u>	<u>\$ 10,790,972</u>	<u>\$ 12,736,849</u>

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

(2) The 2018 Prior Period Adjustment was the result of implementation of GASB Statement 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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CUSHING INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Cushing ISD is an agricultural and natural gas producing area. Local manufacturers produce lumber products and components for oilfield pumping units. The District's current estimated population is approximately 3,268.

Nacogdoches County is an east Texas county with an economy based on agriculture, lumber, and manufacturing. Agricultural income is derived from poultry, cattle, and timber. The county seat is Nacogdoches. The County's current estimated population is approximately 64,653.

Source: Texas Municipal Report for Cushing ISD and Nacogdoches County.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2010	492
2011	470
2012	496
2013	494
2014	461
2015	477
2016	499
2017	510
2018	504
2019	511
2020	489
2021	528
Current	557

District Staff

Teachers	42
Teachers' Aides & Secretaries	10
Auxiliary Personnel	12
Administrators	4
Other	5
	<u>73</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>
Elementary School	PK-5	258	350	2010	
Junior High / High School	6-12	299	300	1972	2010

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Cushing Independent School District	Education	73
Kinder Morgan	Oil & Gas	15
Tejas	Oil & Gas	15
Exxon	Oil & Gas	15

Unemployment Rates

	<u>October 2019</u>	<u>October 2020</u>	<u>October 2021</u>
Nacogdoches County	3.5%	5.8%	4.9%
State of Texas	3.3%	6.9%	4.8%

Source: Texas Workforce Commission.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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February 9, 2022

**CUSHING INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2022
DATED AS OF JANUARY 15, 2022
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,620,000**

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

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) the Escrow Deposit Letter, dated as of November 15, 2021, between the District and BOKF, NA, Dallas, Texas, as Escrow Agent (the *Escrow Agreement*), (iii) the certificate of SAMCO Capital Markets, Inc., with respect to the adequacy of certain escrowed funds and securities to accomplish the refunding purposes of the Bonds (the *Sufficiency Certificate*), (iv) the executed Initial Bond numbered T-1, and (v) the District's Federal Tax Certificate of even date herewith.

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

IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms and that the "Refunded Obligations" (as defined in the Order) being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the Sufficiency Certificate concerning the



sufficiency of the cash and investments deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the *Code*). In expressing the aforementioned opinions, we have relied on the Sufficiency Certificate, and we have further relied on, and assumed compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the District to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds and the defeasance of the Refunded Obligations under the Constitution and general laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of



existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

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APPENDIX D

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

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CUSHING INDEPENDENT SCHOOL DISTRICT
Cushing, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2021

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INTRODUCTORY SECTION

CUSHING INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD
August 31, 2021

Cushing Independent School District
Name of School District

Nacogdoches
County

174-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial report of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2021, at a meeting of the Board of Trustees of such school district on the 12th day of January, 2022.


Signature of Board Secretary


Signature of Board President

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Cushing Independent School District
Cushing, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information and schedule of required responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards 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* (Uniform Guidance), and is also not a required part of the basic financial statements.

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

The schedule of required responses to Selected Schools FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Lufkin, Texas
January 12, 2022

CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2021. Please read it in conjunction with the District's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$12.74 million (Net Position). Of this amount, approximately \$3.25 million (*unrestricted Net Position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by approximately \$1.95 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of approximately \$7.94 million, an increase of approximately \$1.92 million in comparison with the prior year. Approximately \$6 million is *available for spending* at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$6 million, or 99.4% of the General Fund expenditures.

USING THIS ANNUAL REPORT

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

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

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

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, deferred inflows and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the same method used by most private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only one type of fund, which is governmental.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities increased from \$10,790,972 to \$12,736,849. Unrestricted Position - the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$3,250,684 at August 31, 2021.

Table A-1
The District's Net Position

	GOVERNMENTAL ACTIVITIES	
	2021	2020
Current and other assets	\$ 8 430 364	\$ 6 568 640
Capital assets	18 014 988	18 598 433
TOTAL ASSETS	26 445 352	25 167 073
Deferred outflows	825 529	919 384
TOTAL DEFERRED OUTFLOWS	825 529	919 384
Long-term liabilities	11 979 800	13 011 227
Other liabilities	993 915	977 018
TOTAL LIABILITIES	12 973 715	13 988 245
Deferred inflows	1 560 317	1 307 240
TOTAL DEFERRED INFLOWS	1 560 317	1 307 240
Net Position:		
Net investment in capital assets	7 504 988	8 088 433
Restricted	1 981 177	1 258 214
Unrestricted	3 250 684	1 444 325
TOTAL NET POSITION	\$ 12 736 849	\$ 10 790 972

**Table A-2
Changes in the District's Net Position**

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2021</u>	<u>2020</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 142 535	\$ 133 208
Operating grants and contributions	1 113 074	1 322 793
General Revenues:		
Property taxes	2 172 826	2 815 251
Investment earnings	6 877	66 249
Grants and contributions not restricted	5 183 567	4 003 791
Miscellaneous local and intermediate	1 409 434	6 659
TOTAL REVENUES	<u>10 028 313</u>	<u>8 347 951</u>
Governmental Activities:		
Instruction, curriculum and media services	3 987 934	4 125 675
Instructional and school leadership	385 114	412 775
Student services	1 552 501	1 560 529
General administration	462 864	492 460
Plant maintenance and operations	766 852	558 862
Security and monitoring and data processing services	337 037	385 600
Community services	396	1 306
Debt services	336 521	355 954
Payments related to shared services arrangements	253 217	210 875
TOTAL EXPENSES	<u>8 082 436</u>	<u>8 104 036</u>
INCREASE IN NET POSITION	1 945 877	243 915
Beginning net position	<u>10 790 972</u>	<u>10 547 057</u>
ENDING NET POSITION	\$ <u><u>12 736 849</u></u>	\$ <u><u>10 790 972</u></u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of approximately \$7.94 million, which is higher than last year's total of \$6.0 million.

Over the course of the year, the Board of Trustees amended the District's budget several times.

The District's General Fund balance of \$5,963,590 differs from the General Fund's budgetary fund balance by \$1,402,497. This is principally expenses less than budget and increased state revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the District had approximately \$18 million (net of depreciation) invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment.

Debt

At year-end, the District had approximately \$9.86 million in bonds outstanding versus \$10.51 million last year. The District's general obligation bond rating continues to carry the highest rating possible, a rating that has been assigned by national rating agencies.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2022 budget and tax rates. One of those factors is the economy. The District's population growth is expected to continue into the next year.

If these estimates are realized, the District's budgetary General Fund balance is expected to remain stable during 2022. More importantly, however, this will have been accomplished in spite of unfunded mandates.

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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at 1008 West Bearkat Drive, Cushing, Texas 75760.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

DATA CONTROL CODES		PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalents	\$ 6 720 438
1225	Taxes receivable, net	176 994
1240	Due from other governments	1 483 424
1290	Other receivables	201
1410	Prepaid expenditures	49 307
1510	Land and improvements, net	940 481
1520	Building, net	16 626 262
1530	Furniture and equipment, net	448 245
1000	TOTAL ASSETS	<u>26 445 352</u>
	DEFERRED OUTFLOWS	
	Pension related deferred outflows	374 476
	Pension contribution subsequent to measurement date	96 814
	OPEB related deferred outflows	325 034
	OPEB contribution subsequent to measurement date	29 205
1700	TOTAL DEFERRED OUTFLOWS	<u>825 529</u>
	LIABILITIES	
	Current Liabilities:	
2110	Accounts payable	68 822
2140	Interest payable	15 312
2165	Accrued wages payable	239 781
2501	Due within one year	670 000
	Long-Term Liabilities:	
2502	Due in more than one year	9 190 000
2516	Premium on bond issue	195 967
2540	Pension liabilities	1 164 469
2545	Net Other Post-Employment Benefits (OPEB)	1 429 364
2000	TOTAL LIABILITIES	<u>12 973 715</u>
	DEFERRED INFLOWS	
	Pension related deferred inflows	329 550
	OPEB related deferred inflows	1 230 767
2600	TOTAL DEFERRED INFLOWS	<u>1 560 317</u>
	NET POSITION	
3200	Net investment in capital assets	7 504 988
3450	Restricted for grants	187 079
3480	Restricted for debt service	1 794 098
3900	Unrestricted	3 250 684
3000	TOTAL NET POSITION	<u>\$ 12 736 849</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 EXPENSES	3 PROGRAM REVENUES		4 OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES
			CHARGES FOR SERVICES			
	Governmental Activities:					
0011	Instruction	\$ 3 861 116	\$ 10 000		\$ 634 255	\$ (3 216 861)
0012	Instructional resources and media services	125 518	-		5 914	(119 604)
0013	Curriculum and staff development	1 300	-		-	(1 300)
0021	Instructional leadership	22 146	-		8 628	(13 518)
0023	School leadership	362 968	-		18 718	(344 250)
0031	Guidance, counseling, and evaluation services	110 031	-		6 727	(103 304)
0033	Health services	23 259	-		-	(23 259)
0034	Student transportation	255 509	-		5 247	(250 262)
0035	Food services	386 553	11 376		381 331	6 154
0036	Co-curricular/extracurricular activities	777 149	121 159		10 269	(645 721)
0041	General administration	462 864	-		14 419	(448 445)
0051	Plant maintenance and operations	766 852	-		12 217	(754 635)
0052	Security and monitoring services	47 772	-		1 981	(45 791)
0053	Data processing services	289 265	-		13 368	(275 897)
0061	Community services	396	-		-	(396)
0071	Debt service	336 521	-		-	(336 521)
0093	Payments to fiscal agents for SSA	253 217	-		-	(253 217)
TG	TOTAL GOVERNMENT ACTIVITIES	\$ 8 082 436	\$ 142 535		\$ 1 113 074	(6 826 827)
General Revenues:						
MT	Property taxes, levied for general purposes					1 699 104
DT	Property taxes, levied for debt service					473 722
GC	Grants and contributions not restricted					5 183 567
IE	Investment income					6 877
MI	Miscellaneous local and intermediate revenue					1 409 434
TR	TOTAL GENERAL REVENUE					8 772 704
CN	CHANGE IN NET POSITION					1 945 877
NB	Net position - Beginning					10 790 972
NE	NET POSITION - ENDING					\$ 12 736 849

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-1

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
	ASSETS				
1110	Cash and cash equivalents	\$ 4 739 066	\$ 1 793 778	\$ 187 594	\$ 6 720 438
1225	Taxes receivable, net	146 122	30 872	-	176 994
1240	Due from other governments	1 454 213	320	28 891	1 483 424
1260	Due from other funds	50	-	-	50
1290	Other receivable	151	-	50	201
1410	Prepaid expenditures	49 216	-	91	49 307
1000	TOTAL ASSETS	<u>\$ 6 388 818</u>	<u>\$ 1 824 970</u>	<u>\$ 216 626</u>	<u>\$ 8 430 414</u>
	LIABILITIES				
2110	Accounts payable	\$ 44 531	\$ -	\$ 24 291	\$ 68 822
2160	Accrued wages payable	234 575	-	5 206	239 781
2170	Due to other funds	-	-	50	50
2300	Deferred revenue	146 122	30 872	-	176 994
2000	TOTAL LIABILITIES	<u>425 228</u>	<u>30 872</u>	<u>29 547</u>	<u>485 647</u>
	FUND BALANCES				
	Restricted Fund Balance:				
3450	Restricted for grants	-	-	187 079	187 079
3480	Restricted for debt service	-	1 794 098	-	1 794 098
3600	Unassigned	5 963 590	-	-	5 963 590
3000	TOTAL FUND BALANCE	<u>5 963 590</u>	<u>1 794 098</u>	<u>187 079</u>	<u>7 944 767</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6 388 818</u>	<u>\$ 1 824 970</u>	<u>\$ 216 626</u>	<u>\$ 8 430 414</u>

The notes to the financial statements are an integral part of this statement.

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

EXHIBIT C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$ 7 944 767
Amount Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not reported in funds.	18 014 988
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	176 994
Payables for debt and debt premiums which are not due in the current period are not reported in the funds.	(10 055 967)
Payables for bond interest which are not due in the current period are not reported in the funds.	(15 312)
Deferred outflows for pensions are not reported in the funds.	471 290
Deferred inflows for pensions are not reported in the funds.	(329 550)
Liabilities for pensions are not due in the current period and are not reported in the funds.	(1 164 469)
Deferred outflows for OPEB are not reported in the funds.	354 239
Deferred inflows for OPEB are not reported in the funds.	(1 230 767)
Liabilities for OPEB are not due in the current period and are not reported in the funds.	<u>(1 429 364)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION	<u>\$ 12 736 849</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-2

DATA CONTROL CODES		10	50	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
		GENERAL FUND	DEBT SERVICE FUND		
	Revenues:				
5700	Local and intermediate sources	\$ 1 929 629	\$ 1 754 757	\$ 99 030	\$ 3 783 416
5800	State program revenues	4 946 812	10 304	31 472	4 988 588
5900	Federal program revenues	226 451	-	816 045	1 042 496
5020	TOTAL REVENUES	<u>7 102 892</u>	<u>1 765 061</u>	<u>946 547</u>	<u>9 814 500</u>
	Expenditures:				
	Current:				
0011	Instruction	2 972 109	-	463 307	3 435 416
0012	Instructional resources and media services	118 005	-	-	118 005
0013	Curriculum and staff development	1 300	-	-	1 300
0021	Instructional leadership	13 518	-	8 628	22 146
0023	School leadership	343 545	-	-	343 545
0031	Guidance, counseling and evaluation services	103 051	-	-	103 051
0033	Health services	23 259	-	-	23 259
0034	Student transportation	182 985	-	-	182 985
0035	Food services	9 504	-	319 511	329 015
0036	Co-curricular/extracurricular activities	318 401	-	98 398	416 799
0041	General administration	392 339	-	-	392 339
0051	Plant maintenance and operations	958 555	-	-	958 555
0052	Security and monitoring services	45 717	-	-	45 717
0053	Data processing services	261 167	-	-	261 167
0061	Community services	396	-	-	396
0071	Debt service	-	1 011 763	-	1 011 763
0093	Payments to fiscal agents for SSA	253 217	-	-	253 217
6030	TOTAL EXPENDITURES	<u>5 997 068</u>	<u>1 011 763</u>	<u>889 844</u>	<u>7 898 675</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1 105 824</u>	<u>753 298</u>	<u>56 703</u>	<u>1 915 825</u>
	Other Financing Sources (Uses):				
8911	Transfer out	87 038	-	(87 038)	-
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>87 038</u>	<u>-</u>	<u>(87 038)</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	1 192 862	753 298	(30 335)	1 915 825
0100	Fund balance - Beginning	4 770 728	1 040 800	217 414	6 028 942
3000	FUND BALANCE - ENDING	<u>\$ 5 963 590</u>	<u>\$ 1 794 098</u>	<u>\$ 187 079</u>	<u>\$ 7 944 767</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-2R

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1 915 825
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Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different Because:

The depreciation of capital assets used in governmental activities is not reported in the funds.	(855 025)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(51 744)
Repayment of bond principal and premium amortization and changes in accrued interest are an expenditure in the funds, but is not an expense in the SOA.	675 242
Current year capital outlays is an expenditure in the funds, but is not an expense in the SOA.	271 580
Payment of pension liability is an expenditure in the funds, but is not an expense in the SOA.	(69 724)
Payment of the OPEB liability is an expenditure in the funds, but is not an expense in the SOA.	<u>59 723</u>
CHANGE IN NET POSITION TO GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	<u>\$ 1 945 877</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT E-1

DATA CONTROL CODES		ENDOWMENT FUND	STUDENT ACTIVITIES FUND
	ASSETS		
1110	Cash and cash equivalents	\$ <u>147 182</u>	\$ <u>11 028</u>
1000	TOTAL ASSETS	\$ <u>147 182</u>	\$ <u>11 028</u>
	LIABILITIES		
2190	Due to others	\$ <u>-</u>	\$ <u>-</u>
2000	TOTAL LIABILITIES	<u>-</u>	<u>-</u>
3000	FUND BALANCE	\$ <u>147 182</u>	\$ <u>11 028</u>

The accompanying notes are an integral part of this statement.

CUSHING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGE IN NET POSITION
FIDUCIARY FUNDS
August 31, 2021

EXHIBIT E-2

DATA CONTROL CODES		ENDOWMENT FUND	STUDENT ACTIVITIES FUND
	REVENUE:		
5700	Local revenue	\$ 44 640	\$ 32 427
5000	TOTAL REVENUE	<u>44 640</u>	<u>32 427</u>
	EXPENSE:		
6300	Other expenses	\$ -	\$ 35 569
6000	TOTAL REVENUE	<u>-</u>	<u>35 569</u>
1200	CHANGE IN NET POSITION	44 640	(3 142)
0100	Beginning net position	<u>101 904</u>	<u>14 170</u>
3000	ENDING NET POSITION	\$ <u>146 544</u>	\$ <u>11 028</u>

The accompanying notes are an integral part of this statement.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Cushing Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported by taxes, state foundation and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, user fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Additionally, the District reports the following fund types:

Governmental Funds:

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 period.

Fiduciary Funds:

Agency Funds - The District accounts for resources held for others in a custodial capacity in Agency Funds. The District's Agency Funds are Student Activity and Scholarship Fund.

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

Amounts reported as *program revenue* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenue* rather than as program revenue. Likewise, general revenue includes all taxes.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary funds are used to account for the District's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is upon capital maintenance and upon determination of net income, financial position and changes in financial position. The District has no proprietary funds.

When restricted, committed, assigned and unrestricted or unassigned resources are available for use, it is the government's policy to use restricted, committed, or assigned resources first, then unrestricted or unassigned resources as they are needed.

D. Assets, Liabilities and Net Position or Fund Balance

1. Deposits and Investments

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

State statutes authorize the District to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property taxes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 25% of outstanding property taxes at August 31, 2020.

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

3. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental or business-type activities columns in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Buildings and improvements	39
Portable buildings	20
Vehicles	7
Furniture and equipment	5-10

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Estimates and Assumptions

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

6. Fund Balance Policy

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

7. Deferred Inflows and Outflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Pensions

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

9. Other Post-Employment Benefits

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

10. Subsequent Events

Management has evaluated subsequent events through January 12, 2022, the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the functional and fund level 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. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget 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.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year-end.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of August 31, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 4 376 914	45
TOTAL	\$ <u>4 376 914</u>	

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits. 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) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

Custodial Credit Risk

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At August 31, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,375,101 and the bank balance was \$2,311,373. The District's cash deposits at August 31, and during the period ended August 31, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Credit Risk

It is the District's policy to limit its investments to investment types with an investment quality rating not less than "A" or its equivalent by a nationally recognized statistical rating organization.

B. Interfund Transfers

The composition of interfund transfers as of August 31, is as follows:

TRANSFER OUT	TRANSFER IN	AMOUNT
Special Revenue Funds	General Fund	\$ 87 038

C. Receivables

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

	GENERAL	DEBT SERVICE	NONMAJOR AND OTHER	TOTAL
Receivables:				
Taxes	\$ 194 829	\$ 41 163	\$ -	\$ 235 992
Due from other governments	1 454 213	-	28 941	1 483 424
Other receivables	151	-	50	201
GROSS RECEIVABLES	1 649 193	41 163	28 991	1 719 617
Less: Allowance for uncollectibles	(48 707)	(10 291)	-	(58 998)
TOTAL NET RECEIVABLES	\$ 1 600 486	\$ 30 872	\$ 28 991	\$ 1 660 619

Governmental funds report *unearned revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

	UNAVAILABLE
Delinquent property taxes receivable (general fund)	\$ 146 122
Delinquent property taxes receivable (debt service fund)	30 872
TOTAL DEFERRED REVENUE FOR GOVERNMENTAL FUNDS	\$ 176 994

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

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

	BEGINNING BALANCE 09/01	INCREASES	DECREASES	ENDING BALANCE 08/31
Governmental Activities:				
Capital Assets, Being Depreciated:				
Land and improvements	\$ 1 387 528	\$ 167 072	\$ -	\$ 1 554 600
Buildings	22 954 382	97 510	-	23 051 892
Machinery and equipment	1 597 264	7 000	-	1 604 264
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	<u>25 939 174</u>	<u>271 582</u>	<u>-</u>	<u>26 210 756</u>
Less Accumulated Depreciation for:				
Land and improvements	561 385	52 734	-	614 119
Buildings	5 708 301	717 329	-	6 425 630
Machinery and equipment	1 071 056	84 963	-	1 156 019
TOTAL ACCUMULATED DEPRECIATION	<u>7 340 742</u>	<u>855 026</u>	<u>-</u>	<u>8 195 768</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>18 598 432</u>	<u>(583 443)</u>	<u>-</u>	<u>18 014 988</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 18 598 432</u>	<u>\$ (583 443)</u>	<u>\$ -</u>	<u>\$ 18 014 988</u>

Depreciation expense was charged to functions/programs of the government as follows:

Instruction	\$ 253 853
Instructional media services	1 376
Student transportation	64 078
Food services	49 034
Co-curricular/extracurricular activities	356 695
General administration	55 563
Maintenance	60 200
Data processing	14 227
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 855 026</u>

E. Long-term Debt

Bonds Payable

A summary of changes in general long-term debt for the year ended August 31, is as follows:

DESCRIPTION	AMOUNTS ORIGINAL ISSUE	PAYABLE AMOUNT OUT- STANDING 09/01	ADDITIONS	DEDUCTIONS	BALANCE 08/31	DUE WITHIN ONE YEAR
Unlimited Tax School Bld Series 2013	\$ 6 955 000	\$ 5 575 000	\$ -	\$ (185 000)	\$ 5 390 000	\$ 185 000
Unlimited Tax Refund, Series 2014	7 465 000	4 935 000	-	(465 000)	4 470 000	485 000
Premium	-	220 463	-	(24 496)	195 967	-
TOTAL		<u>\$ 10 730 463</u>	<u>\$ -</u>	<u>\$ (674 496)</u>	<u>\$ 10 055 967</u>	<u>\$ 670 000</u>

Interest rates vary from 2.0% to 4.75%; interest of \$360,763 was paid during the year.

Debt service requirements are as follows:

YEAR ENDED AUGUST 31,	GENERAL OBLIGATIONS PRINCIPAL	INTEREST	TOTAL REQUIREMENTS
2022	\$ 670 000	\$ 342 125	\$ 1 012 125
2023	685 000	321 337	1 006 337
2024	710 000	299 475	1 009 475
2025	740 000	275 401	1 015 401
2026	770 000	248 975	1 018 975
2027 - 2031	4 305 000	805 587	5 110 587
2032 - 2033	1 980 000	80 000	2 060 000
TOTAL	<u>\$ 9 860 000</u>	<u>\$ 2 372 900</u>	<u>\$ 12 232 900</u>

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31.

F. Accumulated Unpaid Vacation and Sick Leave Benefits

At August 31, the District had no liability for accrued sick leave or vacation leave.

G. Pension Plan

Plan Description:

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

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

Pension Plan Fiduciary Net Position:

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

Benefits Provided:

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

Contributions:

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2020 and 2021.

	CONTRIBUTION RATES	
	2020	2021
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Employer Contributions		\$ 96 814
Member Contributions		\$ 283 821
NECE On-behalf Contributions		\$ 227 154

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

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

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

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

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

Actuarial Assumptions:

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

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

Discount Rate:

The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 2.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2020 are summarized below:

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

ASSET CLASS	TARGET ALLOCATION*	LONG-TERM EXPECTED ARITHMETIC REAL RATE OF RETURN	EXPECTED CONTRIBUTION TO LONG-TERM PORTFOLIO RETURNS**
Global Equity			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	- %	- %	- %
Stable Value Hedge Funds	4%	3.09%	0.12%
Cash	1%	(0.30)%	- %
Real Return			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	14%	5.21%	0.73%
Energy and Natural Resources	5%	7.48%	0.37%
Commodities	- %	- %	- %
Risk Parity			
Risk Parity	5%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag**			(0.79)%
Total	100%		7.25%

* Target allocations are based on the FY2020 policy model.

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

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

Discount Rate Sensitivity Analysis:

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

	1% DECREASE IN DISCOUNT RATE (6.25%)	DISCOUNT RATE (7.25%)	1% INCREASE IN DISCOUNT RATE (8.25%)
District proportionate share of the net pension liability	\$ 1 795 590	\$ 1 164 469	\$ 651 697

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

At August 31, 2021, the District reported a liability of \$1,164,469 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	\$ 1 164 469
State's proportionate share that is associated with the District	2 948 583
TOTAL	\$ 4 113 052

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

At August 31, 2020 the District's proportion of the collective net pension liability was 0.0022% which was a decrease of 0.0002% from its proportion measured as of August 31, 2019.

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

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

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2020.

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

The discount rate was unchanged at 7.25 percent as of August 31, 2020.

With the enactment of SB 3 by the 2019 Legislature, an assumption has been made about how this legislation would impact future salaries. We have assumed that eligible active members would each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

For the year ended August 31, 2021, the District recognized pension expense of \$354,649 and revenue of \$354,649 for support provided by the State.

At August 31, 2021, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 2 126	\$ 32 497
Changes in actuarial assumptions	270 198	114 886
Difference between projected and actual investment earnings	51 874	28 300
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	50 278	153 867
Contributions paid to TRS subsequent to the measurement date	96 814	-
TOTAL	\$ 471 290	\$ 329 550

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

YEAR ENDED AUGUST 31,	PENSION EXPENSE AMOUNT
2022	\$ 31 354
2023	\$ 21 538
2024	\$ 28 580
2025	\$ (5 066)
2026	\$ (26 629)
Thereafter	\$ (4 851)

H. Defined Other Post-Employment Benefit Plans (OPEB)

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

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

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

TRS-Care Monthly for Retirees		
January 1, 2020 - December 31, 2020		
	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1 020	999

* or surviving spouse

Contributions

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

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

	<u>Contribution Rates</u>	
	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%
Employer Contributions	\$ 29 205	
Member Contributions	\$ 23 959	
NECE On-behalf Contributions	\$ 38 403	

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.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$68 million in fiscal year 2021.

Actuarial Assumptions

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

Actuarial Methods and Assumptions:

Valuation Date	August 31, 2020
Methods and Assumptions:	
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.33% as of August 31, 2020
Demographic Assumptions	Based on the experience study performed for the Teachers Retirement System of Texas of the period ending August 31, 2018.
Mortality Assumption	The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection, the ultimate improvement rates from the most recently published projection scale ("U-MP").
Healthcare Trend Rates	Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and initial medical trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year medical trend for Medicare retirees (107.74%) reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.
Election Rates	Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 9 years.
Aging Factors	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Expenses	Based on plan specific experience.
	Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2020 TRS pension actuarial valuation:

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

Other Information: There was a significant plan change adopted in fiscal year ending August 31, 2019. Effective January 1, 2020, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2018 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.63% as of August 31, 2019 to 2.33% as of August 31, 2020.

Discount Rate

A single discount rate of 2.33% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (1.33%)	Current Single Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
District's proportionate share of the net OPEB liability	\$ 1 715 234	\$ 1 429 364	\$ 1 203 568

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

At August 31, 2021, the District reported a liability of \$1,429,364 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provide to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 1 429 364
State's proportionate share that is associated with the District	1 920 723
TOTAL	\$ 3 350 087

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

At August 31, 2020, the employer's proportion of the collective Net OPEB Liability was 0.0038% which was an increase of (0.0002)% from August 31, 2019.

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

	1% Decrease in Healthcare Trend Rate (3.5%)	Current Single Healthcare Trend Rate (4.5%)	1% Increase in Healthcare Trend Rate (5.5%)
District's proportionate share of the net OPEB liability	\$ 1 167 608	\$ 1 429 364	\$ 1 777 988

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

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

1. The discount rate changed from 2.63 percent as of August 31, 2019 to 2.33 percent as of August 31, 2020. This change increased the TOL.

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

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

For the year ended August 31, 2021, the District recognized OPEB expense of \$13,337 and revenue of \$13,337 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 74 840	\$ 654 150
Changes in actuarial assumptions	88 162	392 511
Difference between projected and actual investment earnings	494	29
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	161 538	184 077
Contributions paid to TRS subsequent to the measurement date	29 205	-
TOTAL	\$ 354 239	\$ 1 230 767

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

YEAR ENDED AUGUST 31,	OPEB EXPENSE AMOUNT
2022	\$ (156 783)
2023	\$ (156 846)
2024	\$ (156 881)
2025	\$ (156 872)
2026	\$ (118 692)
Thereafter	\$ (159 659)

The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care received payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submissions by reporting entities for the month of May. For the fiscal years ended August 31, 2021, 2020 and 2019, the subsidy payments received by TRS-Care on behalf of the District were \$16,674, \$15,135 and \$11,382, respectively.

I. Commitments and Contingencies

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

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

J. Shared Service Arrangements

The District participates in several Shared Service Arrangements ("SSA") described as follows:

State Funded - Garrison ISD fiscal agent: The District participates in a State funded SSA which provides special education services to member districts. In addition to the District, other member districts include various other districts in Nacogdoches County. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

State Funded - Nacogdoches ISD fiscal agent: The District participates in a State funded SSA which provides alternative education services to member districts. In addition to the District, other member districts include various other districts in Nacogdoches County. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

State/Local Funded - Region VII Service Center fiscal agent: The District participates in a state/local funded SSA which provides various services to member districts. In addition to the District, there are several other member districts. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

The District has accounted for the payment of the activities of the SSA in the General Fund Function 93, Shared Services Arrangements and has accounted for using Model 3 in the SSA section of the Resource Guide. These payments totaled \$253,217 for the year ended August 31, were as follows:

SSA - Special Education	\$	253 217
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State and Federally Funded - Nacogdoches ISD fiscal agent - The District participates in a state and federally funded SSA which provides special education services to member districts. In addition to the District other member districts include various other districts in Nacogdoches County. The services are provided by the fiscal agent. The Texas Education Agency provides state and federal grant funds to the fiscal agent. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for the majority of the revenues or expenditures in this program and does not disclose them in these financial statements. The fiscal agent is neither accumulating significant financial resources nor fiscal contingencies that would give rise to a future additional benefit or burden to Cushing Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

K. Worker's Compensation Plan

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

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

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 \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, the Fund carries a discounted reserve of approximately \$58 million for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

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 the following year. The Fund's audited financial statements as of August 31, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

Included below is information detailing the District's estimate of ultimate loss and Allocated Loss Adjustment Expense (ALAE) attributable to being a partially self-funded participant.

FUND YEAR	CLAIMS COUNT AT 08/31		DISTRICT'S AGGREGATE LIABILITY		PAID LOSS AND ALAE AT 08/31		ULTIMATE LOSS AND ALAE AT 08/31		OUTSTANDING LOSS AND ALAE AT 08/31
2018	1	\$	27 271	\$	42 299	\$	27 271	\$	-
2019	2	\$	30 944	\$	3 036	\$	381	\$	775
2020	0	\$	32 457	\$	162	\$	655	\$	493
2021	1	\$	32 898	\$	21 996	\$	32 898	\$	10 902

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

L. Insurance Programs

Property Program

During the year ended August 31, Cushing ISD participated in the TASB Risk Management Fund's (the Fund's) Property Program with coverage in:

Auto Physical Damage; Crime; Equipment Breakdown; Property

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 Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program. 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 year ended August 31, the Fund anticipates Cushing ISD 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 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, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended August 31, Cushing ISD 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 the 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 monthly 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 the 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, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Liability Program

During the year ended August 31, Cushing ISD participated in the TASB Risk Management Fund's (the Fund's) Liability Program with coverage in:

Auto Liability; General Liability; School Professional Legal Liability; Sexual Misconduct Claims Endorsement

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Liability Program. 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 year ended August 31, the Fund anticipates Cushing ISD 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 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, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

M. Concentration Risk

Approximately 38% of the District's property tax revenues for the year ended August 31, were collected from Exxon Mobil Corporation. This concentration risk related to property tax revenues is expected to continue for the foreseeable future, as Exxon Mobil owns and operates oil pipelines in the area.

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

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

N. Chapter 313 Agreement

The Cushing Independent School District Board of Trustees approved an Agreement with Nacogdoches Power LLC, the "Company", for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to Chapter 313 of the Texas Tax Code, *i.e.*, the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. The Company qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as manufacturing projects.

Value limitation agreements are part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in the statute. The project(s) under the Chapter 313 Agreement(s) must be consistent with the State's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each Applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the Applications' approval, each of the Agreements were deemed to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the projects. The Applications, the Agreements, and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>.

After approval, the Applicant company must maintain a viable presence in the District for the entire period of the value limitation, plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that an entity terminates the Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligation under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement together with the payment of penalty and interest on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

The Company sold the plant to the City of Austin, Texas. This sale has removed the property from the tax roll as the City is a tax exempt entity. The District negotiated a settlement with the City related to the exemption of the property and the previously abated taxes. The City of Austin agreed to make impact fee payments of \$600,000 per year from 2020 through 2029, the City is also required to provide \$60,000 for the District's technical training each fiscal year through 2029.

NOTE 4 - COVID-19 PANDEMIC IMPACT

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

REQUIRED SUPPLEMENTARY INFORMATION

CUSHING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended August 31, 2021

EXHIBIT G-1

DATA CONTROL CODES		BUDGETED AMOUNTS		ACTUAL	VARIANCE
		ORIGINAL	FINAL		
	Revenues:				
5700	Local and intermediate sources	\$ 1 754 531	\$ 1 754 531	\$ 1 929 629	\$ 175 098
5800	State program revenues	4 305 532	4 305 532	4 946 812	641 280
5900	Federal program revenues	50 000	50 000	226 451	176 451
5020	TOTAL REVENUES	<u>6 110 063</u>	<u>6 110 063</u>	<u>7 102 892</u>	<u>992 829</u>
	Expenditures:				
	Current:				
0011	Instruction	3 132 586	3 132 586	2 972 109	160 477
0012	Instructional resources and media services	172 182	172 182	118 005	54 177
0013	Curriculum and staff development	5 000	5 000	1 300	3 700
0021	Instructional leadership	15 000	15 000	13 518	1 482
0023	School leadership	356 405	356 405	343 545	12 860
0031	Guidance, counseling and evaluation services	96 723	104 723	103 051	1 672
0033	Health services	24 232	24 232	23 259	973
0034	Student transportation	224 140	201 640	182 985	18 655
0035	Food services	-	9 504	9 504	-
0036	Co-curricular/extracurricular activities	367 425	307 425	318 401	(10 976)
0041	General administration	457 884	443 884	392 339	51 545
0051	Plant maintenance and operations	895 137	969 637	958 555	11 082
0052	Security and monitoring services	60 566	60 566	45 717	14 849
0053	Data processing services	247 414	261 414	261 167	247
0061	Community services	1 500	1 500	396	1 104
0093	Payments to shared service arrangements	254 000	254 000	253 217	783
6030	TOTAL EXPENDITURES	<u>6 310 194</u>	<u>6 319 698</u>	<u>5 997 068</u>	<u>322 630</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(200 131)</u>	<u>(209 635)</u>	<u>1 105 824</u>	<u>1 315 459</u>
	Other Financing Sources (Uses):				
8900	Transfer out	-	-	87 038	87 038
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>87 038</u>	<u>87 038</u>
1200	NET CHANGE IN FUND BALANCES	<u>(200 131)</u>	<u>(209 635)</u>	<u>1 192 862</u>	<u>1 402 497</u>
0100	Fund balances - Beginning	<u>4 770 728</u>	<u>4 770 728</u>	<u>4 770 728</u>	<u>-</u>
3000	FUND BALANCES -ENDING	<u>\$ 4 570 597</u>	<u>\$ 4 561 093</u>	<u>\$ 5 963 590</u>	<u>\$ 1 402 497</u>

See independent auditors' report.

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

EXHIBIT G-2

	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0022%	0.0024%	0.0024%	0.0026%	0.0027%	0.0031%	0.0017%
District's proportionate share of the net pension liability (asset)	\$ 1 164 469	\$ 1 246 007	\$ 1 317 196	\$ 845 585	\$ 1 006 008	\$ 1 090 719	\$ 447 523
State's proportionate share of the net pension liability (asset) associated with the District	2 948 583	2 413 373	1 864 234	1 864 234	2 392 870	2 309 224	1 924 549
TOTAL	\$ 4 113 052	\$ 3 659 380	\$ 3 181 430	\$ 2 709 819	\$ 3 398 878	\$ 3 399 943	\$ 2 372 072
District's covered-employee payroll	\$ 3 597 269	\$ 3 105 977	\$ 2 940 117	\$ 3 417 951	\$ 3 487 714	\$ 3 398 393	\$ 3 616 021
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.37%	40.12%	44.80%	24.74%	28.84%	32.10%	12.38%
Plan fiduciary net position as a percentage of the total pension liability	75.54%	75.24%	82.17%	82.17%	78.00%	78.40%	83.25%

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

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

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 96 814	\$ 85 010	\$ 77 878	\$ 75 079	\$ 81 555	\$ 13 778	\$ 53 587
Contributions in relation to the contractually required contribution	(96 814)	(85 010)	(77 878)	(75 079)	(81 555)	(13 778)	(53 587)
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 3 685 979	\$ 3 597 269	\$ 3 105 977	\$ 2 940 117	\$ 3 417 951	\$ 3 487 714	\$ 3 398 393
Contributions as a percentage of covered-employee payroll	2.63%	2.36%	2.51%	2.55%	2.39%	0.40%	1.58%

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

CUSHING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER
POST-EMPLOYMENT BENEFIT (OPEB) LIABILITY AND DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

EXHIBIT G-4

District's Proportionate Share of Liability	2020	2019	2018	2017
District's proportion of the OPEBL	0.0038%	0.0036%	0.0035%	0.0039%
District's proportionate share of the OPEBL	\$ 1 684 757	\$ 1 684 757	\$ 1 726 086	\$ 1 697 541
State share of the OPEBL associated with the District	<u>2 238 666</u>	<u>2 238 666</u>	<u>2 534 924</u>	<u>2 720 028</u>
TOTAL	<u>\$ 3 923 423</u>	<u>\$ 3 923 423</u>	<u>\$ 4 261 010</u>	<u>\$ 4 417 569</u>
District's covered-employee payroll*	\$ 3 597 269	\$ 3 351 701	\$ 2 940 117	\$ 3 417 951
<i>*Prior FY TRS Gross - September through August</i>				
Proportionate share/covered payroll	46.83%	50.27%	58.71%	49.67%
Plan fiduciary net position/total OPEB liability	4.99%	2.66%	1.57%	0.91%

District Contributions	2021	2020	2019	2018
Contractually required contribution	\$ 29 205	\$ 27 741	\$ 24 248	\$ 22 864
Contributions to required contribution	<u>(29 205)</u>	<u>(27 741)</u>	<u>(24 248)</u>	<u>(22 864)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Current fiscal year TRS gross	\$ 3 685 979	\$ 3 597 269	\$ 3 351 701	\$ 2 940 117
Contributions to covered payroll	0.79%	0.77%	0.72%	0.78%

Information provided by the Teacher Retirement System of Texas.

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

CUSHING INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
August 31, 2021

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District presented the General Fund budgetary comparison schedule as required supplementary information. The Child Nutrition Fund and Debt Service Fund budgetary comparison schedules are presented as required TEA schedules. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget 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.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding end-of-year encumbrances.

Defined Benefit Pension Plan and Other Post-Employment Benefits

Changes of benefit term and assumptions

See the notes starting on page 26 for detail of the changes in the benefits and assumptions related to the Defined Benefit Pension Plan and the Other Post-Employment Benefits for the fiscal period ending August 31, 2021.

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COMBINING STATEMENTS

CUSHING INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
August 31, 2021

DATA CONTROL CODES		211 ESEA TITLE I IMPROVING BASIC SKILLS	240 NATIONAL BREAKFAST AND LUNCH PROGRAM	242 SUMMER FEEDING PROGRAM	255 TEACHER AND PRINCIPAL TRAINING
	ASSETS				
1110	Cash and cash equivalent	\$ -	\$ 139 330	\$ 6 098	\$ -
1240	Due from other government	10 616	14 515	-	-
1260	Due from other funds	-	-	-	50
1290	Other receivables	-	91	-	-
1000	TOTAL ASSETS	\$ 10 616	\$ 153 936	\$ 6 098	\$ 50
	LIABILITIES AND FUND BALANCES				
	Liabilities:				
2110	Accounts payable	\$ 10 616	\$ 9 915	\$ -	\$ -
2160	Accrued wages payable	-	5 206	-	-
2170	Due to other funds	-	-	-	50
2000	TOTAL LIABILITIES	10 616	15 121	-	50
	Fund Balances:				
	Restricted Fund Balances:				
3450	Restricted for food service	-	138 815	6 098	-
3490	Other restricted fund balance	-	-	-	-
3000	TOTAL FUND BALANCES	-	138 815	6 098	-
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ 10 616	\$ 153 936	\$ 6 098	\$ 50

See independent auditors' report.

EXHIBIT H-1

266	282	289	397	410	461	TOTAL NONMAJOR GOVERNMENTAL FUNDS (See Exhibit C-1)
ESSER GRANT	ESSER III GRANT	SRSA TECH GRANT	ADVANCED PLACEMENT INITIATIVE	STATE TEXTBOOK FUND	CAMPUS ACTIVITY FUNDS	
\$ -	\$ -	\$ -	\$ 6	\$ 8 002	\$ 34 158	\$ 187 594
-	-	3 760	-	-	-	28 891
-	-	-	-	-	-	50
-	-	-	-	-	-	91
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3 760</u>	<u>\$ 6</u>	<u>\$ 8 002</u>	<u>\$ 34 158</u>	<u>\$ 216 626</u>
\$ -	\$ -	\$ 3 760	\$ -	\$ -	\$ -	\$ 24 291
-	-	-	-	-	-	5 206
-	-	-	-	-	-	50
<u>-</u>	<u>-</u>	<u>3 760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29 547</u>
-	-	-	-	-	-	144 913
<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>8 002</u>	<u>34 158</u>	<u>42 166</u>
-	-	-	6	8 002	34 158	187 079
<u>-</u>	<u>-</u>	<u>3 760</u>	<u>6</u>	<u>8 002</u>	<u>34 158</u>	<u>216 626</u>

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

DATA CONTROL CODES		211 ESEA TITLE I IMPROVING BASIC SKILLS	240 NATIONAL BREAKFAST AND LUNCH PROGRAM	242 SUMMER FEEDING PROGRAM	255 TEACHER AND PRINCIPAL TRAINING
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ 11 376	\$ -	\$ -
5800	State program revenues	-	9 236	-	-
5900	Federal program revenues	<u>159 628</u>	<u>363 900</u>	<u>-</u>	<u>18 029</u>
5020	TOTAL REVENUES	<u>159 628</u>	<u>384 512</u>	<u>-</u>	<u>18 029</u>
	Expenditures:				
	Current:				
0011	Instruction	146 194	-	-	17 229
0021	Instructional leadership	3 992	-	-	800
0035	Food services	-	318 489	1 022	-
0036	Co-curricular/extracurricular activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030	TOTAL EXPENDITURES	<u>150 186</u>	<u>318 489</u>	<u>1 022</u>	<u>18 029</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>9 442</u>	<u>66 023</u>	<u>(1 022)</u>	<u>-</u>
	Other Financing Sources (Uses):				
8911	Transfers out	<u>(9 442)</u>	<u>-</u>	<u>-</u>	<u>(846)</u>
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>(9 442)</u>	<u>-</u>	<u>-</u>	<u>(846)</u>
1200	NET CHANGE IN FUND BALANCES	-	66 023	(1 022)	(846)
0100	Fund balances - Beginning	<u>-</u>	<u>72 792</u>	<u>7 120</u>	<u>846</u>
3000	FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 138 815</u>	<u>\$ 6 098</u>	<u>\$ -</u>

See independent auditors' report.

EXHIBIT H-2

266	282	289	397	410	461	TOTAL NONMAJOR GOVERNMENTAL FUNDS (See Exhibit C-2)
ESSER GRANT	ESSER III GRANT	SRSA TECH GRANT	ADVANCED PLACEMENT INITIATIVE	STATE TEXTBOOK FUND	CAMPUS ACTIVITY FUNDS	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87 654	\$ 99 030
-	-	-	-	22 236	-	31 472
<u>182 365</u>	<u>73 443</u>	<u>18 680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>816 045</u>
<u>182 365</u>	<u>73 443</u>	<u>18 680</u>	<u>-</u>	<u>22 236</u>	<u>87 654</u>	<u>946 547</u>
103 190	73 443	17 269	-	105 982	-	463 307
3 036	-	800	-	-	-	8 628
-	-	-	-	-	-	319 511
-	-	-	-	-	98 398	98 398
<u>106 226</u>	<u>73 443</u>	<u>18 069</u>	<u>-</u>	<u>105 982</u>	<u>98 398</u>	<u>889 844</u>
<u>76 139</u>	<u>-</u>	<u>611</u>	<u>-</u>	<u>(83 746)</u>	<u>(10 744)</u>	<u>56 703</u>
<u>(76 139)</u>	<u>-</u>	<u>(611)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87 038)</u>
<u>(76 139)</u>	<u>-</u>	<u>(611)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87 038)</u>
-	-	-	-	(83 746)	(10 744)	(30 335)
<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>91 748</u>	<u>44 902</u>	<u>217 414</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6</u>	\$ <u>8 002</u>	\$ <u>34 158</u>	\$ <u>187 079</u>

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REQUIRED TEA SCHEDULES

CUSHING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
Fiscal Year Ended August 31, 2021

LAST 10 YEARS ENDED AUGUST 31,	TAX RATES		ASSESSED/ APPRAISAL VALUE FOR SCHOOL TAX PURPOSES	BEGINNING BALANCE M&O	BEGINNING BALANCE I&S
	MAINTENANCE	DEBT SERVICE			
2012 and prior years	Various	Various	\$ 455 152 908	\$ 80 445	\$ 8 029
2013	1.0400	0.2600	\$ 320 590 112	8 846	2 211
2014	1.0400	0.2600	\$ 281 237 615	9 394	2 349
2015	1.0400	0.2600	\$ 298 901 282	12 685	3 299
2016	1.0400	0.2600	\$ 294 434 077	12 265	3 060
2017	1.0400	0.2600	\$ 264 352 238	15 451	3 963
2018	1.0400	0.2600	\$ 270 157 615	18 728	4 811
2019	1.0400	0.2600	\$ 269 600 000	26 549	6 766
2020	0.9700	0.2600	\$ 284 940 650	67 821	18 312
2021 (School year under audit)	0.9700	0.2600	\$ 176 897 668	-	-
TOTALS				\$ 252 184	\$ 52 800

See independent auditors' report.

EXHIBIT J-1

M&O CURRENT LEVY	I&S CURRENT LEVY	M&O COLLECT- IONS	I&S COLLECT- IONS	M&O ADJUST- MENTS	I&S ADJUST- MENTS	ENDING BALANCE M&O	ENDING BALANCE I&S
\$ -	\$ -	\$ 4 370	\$ 533	\$ 10 002	\$ 26	\$ 66 073	\$ 7 470
-	-	522	130	36	9	8 288	2 072
-	-	747	187	36	9	8 611	2 153
-	-	1 432	385	321	81	10 932	2 833
-	-	2 984	739	321	81	8 960	2 240
-	-	2 927	735	36	9	12 488	3 219
-	-	5 484	1 371	523	130	12 721	3 310
-	-	8 118	2 030	630	157	17 801	4 579
-	-	36 119	9 585	9 358	2 610	22 344	6 117
<u>1 703 300</u>	<u>466 173</u>	<u>1 653 113</u>	<u>452 842</u>	<u>23 576</u>	<u>6 161</u>	<u>26 611</u>	<u>7 170</u>
\$ <u>1 703 300</u>	\$ <u>466 173</u>	\$ <u>1 715 816</u>	\$ <u>468 537</u>	\$ <u>44 839</u>	\$ <u>9 273</u>	\$ <u>194 829</u>	\$ <u>41 163</u>

CUSHING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
For the Year Ended August 31, 2021

EXHIBIT J-2

DATA CONTROL CODES		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 20 000	\$ 20 000	\$ 11 376	\$ (8 624)
5800	State program revenues	11 891	11 891	9 236	(2 655)
5900	Federal program revenues	269 500	269 500	363 900	94 400
5020	TOTAL REVENUES	<u>301 391</u>	<u>301 391</u>	<u>384 512</u>	<u>83 121</u>
	Expenditures:				
	Current:				
	Support Services - Student:				
0035	Food services	<u>356 627</u>	<u>356 627</u>	<u>318 489</u>	<u>38 138</u>
6030	TOTAL EXPENDITURES	<u>356 627</u>	<u>356 627</u>	<u>318 489</u>	<u>38 138</u>
1200	NET CHANGE IN FUND BALANCE	(55 236)	(55 236)	66 023	121 259
0100	Fund balance - Beginning	<u>72 792</u>	<u>72 792</u>	<u>72 792</u>	<u>-</u>
3000	FUND BALANCE - ENDING	\$ <u>17 556</u>	\$ <u>17 556</u>	\$ <u>138 815</u>	\$ <u>121 259</u>

See independent auditors' report.

CUSHING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
For the Year Ended August 31, 2021

EXHIBIT J-3

DATA CONTROL CODES		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 1 021 545	\$ 1 021 545	\$ 1 754 757	\$ 733 212
5800	State program revenues	-	-	10 304	10 304
5020	TOTAL REVENUES	<u>1 021 545</u>	<u>1 021 545</u>	<u>1 765 061</u>	<u>743 516</u>
	Expenditures:				
	Debt Service:				
0071	Long-term debt	<u>1 016 263</u>	<u>1 016 263</u>	<u>1 011 763</u>	<u>4 500</u>
6030	TOTAL EXPENDITURES	<u>1 016 263</u>	<u>1 016 263</u>	<u>1 011 763</u>	<u>4 500</u>
1200	NET CHANGE IN FUND BALANCES	5 282	5 282	753 298	748 016
0100	Fund balance - Beginning	<u>1 040 800</u>	<u>1 040 800</u>	<u>1 040 800</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 1 046 082</u>	<u>\$ 1 046 082</u>	<u>\$ 1 794 098</u>	<u>\$ 748 016</u>

See independent auditors' report.

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

EXHIBIT J-4

<u>DATA CONTROL CODES</u>		<u>RESPONSES</u>
	<u>Section A: Compensatory Education Programs</u>	
	Districts are required to use at least 55% of state compensatory education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.104.	
AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?	Yes
AP3	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$ <u>521 561</u>
AP5	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30,34)	\$ <u>413 517</u>
	<u>Section B: Bilingual Education Programs</u>	
	Districts are required to use at least 55% of bilingual education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.105.	
AP8	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?	Yes
AP9	Does the district have written policies and procedures for its bilingual education program?	Yes
AP10	Total state allotment funds received for bilingual education programs during the district's fiscal year.	\$ <u>15 818</u>
AP12	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PICs 25 and 35)	\$ <u>16 603</u>

COMPLIANCE SECTION

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

Board of Trustees
Cushing Independent School District
Cushing, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cushing Independent School District as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued our report thereon dated January 12, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified significant deficiencies as listed in the schedule of findings, see Finding 2021-01.

Compliance and Other Matters

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

Purpose of this Report

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

Lufkin, Texas
January 12, 2022

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Cushing Independent School District
Cushing, Texas

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Cushing Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cushing Independent School District's major federal programs for the year ended August 31, 2021. Cushing Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cushing Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *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 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 and Cushing Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Lufkin, Texas
January 12, 2022

CERTIFIED PUBLIC ACCOUNTANTS

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

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(s) identified that are not considered to be material weaknesses?

☒ Yes ☐ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

2. Federal Awards

Internal control over major programs:

Material control over major programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(s) identified that are not considered to be material weaknesses?

☐ Yes ☒ None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

84.425

10.553/10.555

Name of Federal Program or Cluster

ESSER

Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

B. Financial Statement Findings

2021-01 - Segregation of Duties

Condition: Due to the limited number of personnel and changes in staff during the period audited, a total segregation of certain accounting functions was not possible.

Criteria: The District continues to establish procedures that would ensure proper segregation of certain accounting functions, especially, to limit the functions of recording, authorizing and custody.

Effect: As a result, during the audit period, operation of procedures might not have allowed management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Cause: The Board of Trustees and management is actively changing personnel responsibilities and procedures to limit the risk.

Recommendation: We recommend that the Board of Trustees continue to monitor the internal accounting control procedures in use to assure that compensating controls are being utilized to provide assurance that assets are safeguarded and transactions are proper and recorded in a timely manner. These actions would mitigate, but not eliminate the risk of misstatement or misappropriation.

Contact: Superintendent

Timeframe: Ongoing

C. Federal Award Findings and Questioned Costs

None

CUSHING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the Year Ended August 31, 2021

Schedule of Status of Prior Audit Findings

2020-01 - Segregation of Duties

Ongoing issue.

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

Exhibit K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	(2) FEDERAL CFDA NUMBER	(3) PASS THROUGH GRANTOR	(4) FEDERAL EXPENDITURES
U.S. Department of Education			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010	21610101174902	\$ 159 628
ESEA Title V, Part B, Subpart 2 - Rural and Low-Income Program	84.358	N/A	5 796
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367	21694501117902	18 029
Title IV, Part A, Subpart 1	84.424	21680101117902	12 884
Elementary and Secondary School Relief	84.425D	20521001117902	182 365
Coronavirus Relief Fund	21.019	N/A	60 419
American Rescue Plan - ESSER III	84.425U	21528001174902	73 443
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>512 564</u>
U.S. Department of Agriculture:			
Commodities	10.565	N/A	19 518
School Breakfast Program	10.553	71402101	108 636
National School Lunch Program	10.555	71302101	235 746
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>363 900</u>
U.S. Department of Health and Human Services:			
Provider Relief Funds	93.489	N/A	2 219
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2 219</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 878 683</u>

See notes to the Schedule of Expenditures of Federal Awards.

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

Basis of Presentation:

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

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

The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards	\$ 878 683
General Fund - Federal Revenue:	
Student Health and Related Services (SHARS)	<u>163 813</u>
TOTAL FEDERAL REVENUES	<u>\$ 1 042 496</u>

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

Corrective Action Plan

2021-01 - Segregation of Duties

District management and the board will continue to monitor the internal accounting control procedures in use to assure that compensating controls are being utilized to provide assurance that assets are safeguarded and transactions are proper and recorded in a timely manner.

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

Exhibit L-1

DATA CONTROL CODES		RESPONSES
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ <u>0</u>

See independent auditors' report.

Financial Advisory Services
Provided By:

