Rating: Moody's: "Aaa"
(See "RATING" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFERING MEMORANDUM
Dated: January 10, 2022

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion. See "TAX MATTERS" herein.

$25,000,000*
KILGORE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gregg and Rusk Counties, Texas)
ADJUSTABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022
INITIAL RATE PERIOD ENDING _____AT A PER ANNUM INITIAL RATE OF ___%
(PRICED TO YIELD ___% TO MANDATORY TENDER DATE)

Dated Date: February 1, 2022 (interest will accrue from the Closing Date) **Mandatory Tender Date: August 15, 2025***
CUSIP No[(1)]: ______ **Stated Maturity: February 15, 2052**

The Kilgore Independent School District Adjustable Rate Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, Texas Government Code, as amended, an election held in the District on November 2, 2021 and the order (the "Order") to be adopted by the Board of Trustees (the "Board") on January 18, 2022. 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 Kilgore Independent School District (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; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price (defined herein) for mandatorily tendered Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing August 15, 2022. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein). The initial Tender Agent and Paying Agent/Registrar, respectively, for the Bonds is BOKF, NA, Dallas, Texas (see "THE BONDS – General Description").

The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to optional, extraordinary optional, and mandatory redemption prior to maturity, in whole or in part, as described herein (see "THE BONDS - Redemption").

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery of the Bonds to the Underwriters (defined below), anticipated to occur on or about February 15, 2022 (the "Closing Date"), through August 14, 2025* (the "Initial Rate Period"), at the rate of ____% (the "Initial Rate") (being the rate so determined by the Underwriters identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity or (as and if applicable) prior redemption (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on August 15, 2025*. During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean ____% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS – Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Dallas, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

Proceeds from the sale of the Bonds will be used for the purpose of (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities, (ii) designing, constructing, renovating, improving, upgrading, updating, acquiring and equipping the R.E. St. John Memorial Stadium, and (iii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose".)

Concurrently with the issuance of the Bonds, the District is issuing its $88,000,000* Fixed Rate Unlimited Tax School Building Bonds, Series 2022 (see "INTRODUCTORY STATEMENT" herein).

The Bonds are offered for delivery when, as and if issued, and received by the Underwriters subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 15, 2022.

FHN FINANCIAL CAPITAL

BAIRD **HUNTINGTON CAPITAL MARKETS** **PIPER SANDLER & CO.**

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* *Preliminary, subject to change.*
(1) CUSIP is a registered trademark of The American Bankers Association. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association and are included solely for the convenience of owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor, or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

KILGORE INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Name	Date Initially Elected	Current Term Expires (November)	Occupation
Reggie Henson, President	2012	2024	Self Employed
Alan Clark, Vice President	2018	2024	VP of Commercial Lending
Lloyd Vanderwater, Secretary	2019	2022	CFO Drover Energy
Dereck Borders, Member	2008	2023	Senior Plant Operator
Joe Parker, Member	2016	2022	Self Employed
Dana Sneed, Member	2019	2022	Retired
Jason Smith, Member	2020	2023	Safety Manager

APPOINTED OFFICIALS

Name	Position	Length of Education Service	Length of Service with District
Dr. Andrew Baker	Superintendent	27 Years	3 Years
Revard Pfeffer*	Chief Financial Officer	25 Years	25 Years

**Mr. Pfeffer is scheduled to retire in June 2022. The District intends to hire his replacement in January/February 2022, providing for a transition period.*

CONSULTANTS AND ADVISORS

Norton Rose Fulbright US LLP, Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Mays & Associate PLLC, Baytown, Texas	Certified Public Accountants

For additional information, contact:

Revard Pfeffer
Chief Financial Officer
Kilgore ISD
301 N. Kilgore Street
Kilgore, Texas 75662
(903) 988-3900

Doug Whitt / Brian Grubbs / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFERING MEMORANDUM

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

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

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Offering Memorandum 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 Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Texas Education Agency's ("TEA") and the District's undertakings to provide certain information on a continuing basis.

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

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

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

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

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

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SELECTED DATA FROM THE OFFERING MEMORANDUM

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

The District	The Kilgore Independent School District (the "District") is a political subdivision of the State of Texas located in Gregg 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.
Rate Periods	The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, being the rate determined by the Underwriters, which will be in effect from the Closing Date (as defined in the Order, but anticipated to occur on or about February 15, 2022) through August 14, 2025*, with interest being payable on each February 15 and August 15, beginning August 15, 2022. The Initial Rate is ____%, calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See "THE BONDS - Interest Rate Modes" herein.) In the event of a failed remarketing and conversion, the Bonds will bear interest at the Stepped Rate during the Stepped Rate Period (as defined in the Order). The Stepped Rate for the Bonds is ____%. (See "THE BONDS – Tender Provisions" herein)
Paying Agent/Registrar and Tender Agent	The initial Paying Agent/Registrar and Tender Agent for the Bonds is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	The Bonds will constitute direct 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.
Redemption	After the Initial Rate Period and prior to conversion to a Fixed Rate, or a new Term Rate, the Bonds are subject to optional redemption at par, on the dates and in the manner, as described herein. In addition, and at all times that the Bonds bear interest at the Initial Rate or at a Term Rate (including during the Initial Rate Period), the Bonds are subject to redemption, on any date and in whole (but not in part), at the District's option upon the occurrence of a hereinafter-defined Extraordinary Event, and at any time during a Stepped Rate Period, at the redemption price of par plus accrued interest to such date of redemption. (See "THE BONDS - Redemption".) **During the Initial Rate Period the Bonds are not subject to optional redemption except, as described above, upon the occurrence of an Extraordinary Event or during any Stepped Rate Period following the Initial Rate Period.** These provisions are preliminary and subject to change.
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's) based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "Aa3" by Moody's. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C - "Form of Legal Opinion of Bond Counsel.") Bond Counsel's opinion does not cover the effect on excludability of interest of subsequent action under the terms of the Order that may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law.
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel.
Delivery	When issued, anticipated to occur on or about February 15, 2022.
Concurrent Issuance of Bonds by the District	The Bonds are being issued concurrently with the District's issuance of $88,000,000 (preliminary, subject to change) Kilgore Independent School District Fixed Rate Unlimited Tax School Building Bonds, Series 2022, scheduled to close on or about February 15, 2022 (the "Series 2022 Fixed Rate Bonds"). This Offering Memorandum describes only the Bonds and not the Series 2022 Fixed Rate Bonds. Investors interested in making an investment decision concerning the Series 2022 Fixed Rate Bonds should review the offering documents relating thereto.

* *Preliminary, subject to change.*

INTRODUCTORY STATEMENT

This Offering Memorandum, including Appendices A, B and D, has been prepared by the Kilgore Independent School District (the "District"), a political subdivision of the State of Texas located in Gregg and Rusk Counties, Texas, in connection with the offering by the District of its Adjustable Rate Unlimited Tax School Building Bonds, Series 2022 (the "Bonds").

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

There follows in this Offering Memorandum descriptions of the Bonds and the order to be adopted by the Board of Trustees of the District (the "Board") on January 18, 2022 authorizing the issuance of the Bonds (the "Order") and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662 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 Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of the Final Offering Memorandum pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

Concurrently with the issuance of the Bonds, the District is issuing its $88,000,000* Fixed Rate Unlimited Tax School Building Bonds, Series 2022 (the "Series 2022 Fixed Rate Bonds"). The Series 2022 Fixed Rate Bonds are issued for the same purposes as are the Bonds, utilizing the authorization to issue unlimited ad valorem tax bonds approved at the Election (as defined below), but are separate obligations of the District. This Offering Memorandum describes only the Bonds and not the Series 2022 Fixed Rate Bonds. Investors interested in purchasing the Series 2022 Fixed Rate Bonds should review the offering document relating thereto.

COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation and reopening. However, on March 2, 2021, the Governor issued Executive Order GA-34 effective March 10, 2021, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to $1,000 for noncompliance, subject to certain exceptions. Notwithstanding the above, Executive Order GA-36 provides for public schools to continue to follow policies regarding the wearing of face coverings to the extent reflected in current guidance by TEA, until June 4, 2021. However, Executive Order GA-36 required TEA to revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. TEA has since updated its guidance in accordance with Executive Order GA-36. Executive Order GA-38, issued on July 29, 2021 and Executive Order GA-39, issued on August 25, 2021, further provide that governmental entities cannot require mask mandates, vaccine passports, or mandatory vaccinations. On October 11, 2021, the Governor issued Executive Order GA-40, prohibiting any entity from requiring COVID vaccinations. Various lawsuits have been filed throughout the State related to the foregoing. Executive orders remain in place until they are amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Offering Memorandum.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be fully quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The TEA advised districts that for the 2020-2021 school year district funding will return to being based on "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA") calculations requiring attendance to be taken. However, the TEA has crafted an approach for determining ADA during the pandemic that provides districts with several options for determining daily attendance. These include remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network.

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

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

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and may continue negatively affecting economic growth and financial markets worldwide. In addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

Additionally, state funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets (which markets provide significant revenues to the State, who in turn, use such revenues to satisfy its public school funding obligations). See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

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

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

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of $25,000,000 (preliminary, subject to change) pursuant to the Texas Constitution and general laws of the State of Texas (the "State"), particularly Section 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chatper 1371, Texas Government Code, as amended, an election held in the District on November 2, 2021 (the "Election"), and the Order to be adopted on January 18, 2022. Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities, (ii) designing, constructing, renovating, improving, upgrading, updating, acquiring and equipping the R.E. St. John Memorial Stadium, and (iii) pay the costs of issuing the Bonds.

Security for Payment

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price 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 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; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES").

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* *Preliminary, subject to change.*

General Description

Initial Issuance in Initial Rate Period. The Bonds are multimodal adjustable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in an initial period of interest during which the Bonds bear interest at the Initial Rate, which interest rate period is effective upon initial delivery of the Bonds to the Underwriters (anticipated to occur on or about February 15, 2022) and continues through August 14, 2025* (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. The Bonds are issued in denominations of $5,000.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds will accrue from the Closing Date and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 15 and August 15 commencing August 15, 2022.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company, New York, New York ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. (See "THE BONDS – Book-Entry-Only System".)

Paying Agent/Registrar. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees 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.

Tender Agent. BOKF, NA, Dallas, Texas, will serve as the initial tender agent (the "Tender Agent") for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to BOKF, NA, Dallas, Texas, Attn: Mr. Tony Hongnoi, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds into a new interest rate period prior to expiration of the Initial Rate Period, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate period. The remarketing memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Payment Record. The District has never defaulted with respect to the payment of its bonded indebtedness.

Interest Rate Modes

The Bonds may be converted and remarketed into a new Term Rate interest period of the same or different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period, provided that the Initial Rate Period is as set forth on the cover page hereof.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below. See "THE BONDS - Determination of Interest Rates; Rate Mode Changes".

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for the Initial Rate Period, beginning on the date of initial authentication and delivery of the Bonds to the Underwriters (anticipated to occur on or about February 15, 2022) and ending on August 14, 2025*. The Interest Payment Dates during the Initial Rate Period will be on each February 15 and August 15, commencing on August 15, 2022. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after Initial Rate. While the Bonds bear interest at the Initial Rate or a Term Rate, the Paying Agent/Registrar is required to give notice to the owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the date by which the Remarketing Agent will determine the Term Rate and the date by which the owners will be notified thereof; and (c) the procedure by which the Bonds will be subject to mandatory tender on the effective date of the change in the interest rate mode, including the date and time that any notices must be received.

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* *Preliminary, subject to change.*

Any conversion to a new interest mode and period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

While in the Initial Rate Period or a subsequent Term Rate period, Bonds may be converted to a different interest rate mode only at the expiration of such interest period (which conversion will take place on an Interest Payment Date).

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the Initial Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of ____% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Notice of Rates. Owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, immediately after the end of the Initial Rate Period, on August 15, 2025*.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Initial Rate Period or Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at not less than par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to ____%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that is not tendered on the mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory tender date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming mandatory tender date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that, at the option of the District, the Bonds bearing interest at the Initial Rate or a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Interest Payment Date that occurs after conclusion of such interest period during which the Bonds bear interest at the Initial Rate or Term Rate. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the hereinafter defined Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the Interest Payment Date on which the Fixed Rate mode is to become effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than being subject to mandatory tender for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date.

* *Preliminary, subject to change*

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion to a Fixed Rate Mode not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the date by which the District will determine and the Paying Agent/Registrar will notify the owners of the Fixed Rate Bonds; and (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period (except upon the occurrence of an Extraordinary Event, as described below), but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period (which is also the Conversion Date). During a Stepped Rate Period, the Bonds are subject to redemption on any date.

Extraordinary Optional Redemption.* Upon the occurrence of an Extraordinary Event, the Bonds are subject to redemption prior to Stated Maturity, at the option of the District, on any date, in whole but not in part, in principal amounts of $5,000 or any integral multiple thereof, at the price of par plus accrued interest to such date of redemption.

The term "Extraordinary Event" shall mean the occurrence of (i) passage of legislation by either house of the United States Congress, the effect of which (if enrolled) would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or (ii) the execution by the President of the United States of an executive order that imposes, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds.

Upon the occurrence of an Extraordinary Event, the District anticipates issuing tax-exempt refunding bonds prior to the effective date of such legislation and exercising the right to redeem and refund the Bonds with the proceeds of the refunding bonds.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity following the Initial Rate Period as follows:

Mandatory Redemption*

Date	Amount
February 15, 2049	$
February 15, 2050	
February 15, 2051	
February 15, 2052(1)	

**Preliminary, subject to change*
(1) Stated Maturity.

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofor credited against a mandatory redemption requirement.

Notices of Redemption and DTC Notices. The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of the Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when the Bonds bear interest at the Initial Rate or a Term Rate. All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on the Conversion Date.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct

Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See “BOOK-ENTRY-ONLY SYSTEM” herein).

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See “LEGAL MATTERS” and “Appendix C - Form of Legal Opinion of Bond Counsel”).

Payment Record

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

Amendments

The District, may, without the consent of or notice to any holders of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of holders of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided, however, that, without the consent of all holders of outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment of (2) Government Securities (defined below) which have been certified by an independent accounting firm or other qualified third party to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with any deposited therewith, to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that “Government Securities” means (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 of their acquisition or purchase by the District, 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 have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. In the Order, the District reserves the right to restrict the definition of Government Securities in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds (“Defeasance Proceeds”), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

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

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	$
Premium	
Total Sources of Funds	$
Uses	
Deposit to Construction Fund	$
Costs of Issuance	
Underwriters’ Discount	
Deposit to Interest and Sinking Fund	
Total Uses of Funds	$

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment, when due, of principal or interest, or redemption price of the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospective ability to be repaid in accordance with the Order any registered owner may seek a writ of mandamus from a court of proper jurisdiction to compel the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, 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 owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, Texas Government Code, as amended ("Chapter 1371") which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds. In connection with the issuance of the Bonds, the District has not relied on Chapter 1371 and therefore has not waived the defense of sovereign immunity with respect thereto. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the subcaption "THE BONDS – Authorization and Purpose"), the District has not waived the defense of sovereign immunity with respect thereto. 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 and by general principles of equity which permit the exercise of judicial discretion.

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 Offering Memorandum. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriters believe to be reliable, but none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Offering Memorandum

In reading this Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Offering Memorandum 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, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Initial Registration

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

Future Registration

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

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

Following a Fixed Rate Conversion Date, neither the District nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption prior to maturity, in whole or in part, within thirty (30) days prior to the date fixed for redemption; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Bond.

Replacement Bonds

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

Audited financial information for the SBOE (as defined herein) financial portfolios of the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The State School Land Board's ("SLB") land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2020, filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund

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

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

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

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

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

Annual Distributions to the Available School Fund[1]

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

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

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

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

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

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

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

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

2021 Legislation – Senate Bill 1232

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

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

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

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

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

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

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

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

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

The bill amends provisions of the Texas Natural Resources Code (the "NRC") that pertain to the authority of the SLB to manage public school land by limiting investments by the SLB to "real property holdings," which are defined to mean direct or indirect interests in real property located in the State or any interest in a joint venture whose primary purpose is the acquisition, development, holding, and disposing of real property located in the State. The bill excludes from the definition of "real property holdings" any interest in an "investment vehicle," and requires SLB to transfer mineral revenues to the PSF Corporation monthly. The determination of whether to make a direct transfer to the ASF from the revenues of the land or other properties is presently made by SLB, and the decision as to whether to make a direct transfer to the ASF, and the amount of such transfer, is solely within the purview of the SLB. That authorization would continue after creation of the PSF Corporation and implementation of the proposed changes set forth in SB 1232.

Asset Allocation of Fund Portfolios

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

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

PSF Strategic Asset Allocations

	PSF Total	PSF(SBOE)	PSF(SLB)	Liquid Account
Equity Total	47%	52%	0%	40%
Public Equity Total	34%	37%	0%	40%
Large Cap US Equity	13%	14%	0%	20%
Small/Mid Cap US Equity	5%	6%	0%	5%
International Equities	13%	14%	0%	15%
Emerging Markets Equity	2%	3%	0%	0%
Private Equity	13%	15%	0%	0%
Fixed Income Total	27%	25%	0%	40%
Core Bonds	11%	12%	0%	10%
High Yield	2%	3%	0%	0%
Emerging Markets Debt	6%	7%	0%	0%
Treasuries	2%	3%	0%	0%
TIPS	3%	0%	0%	5%

Short Duration	2%	0%	0%	25%
Alternative Investments Total	25%	22%	100%	
Absolute Return	6%	7%	0%	0%
Real Estate	12%	11%	33%	0%
Real Return	1%	4%	0%	0%
Energy	3%	0%	35%	0%
Infrastructure	3%	0%	32%	0%
Emerging Manager Program	0%	1%	0%	0%
Cash	2%	0%	0%	20%

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

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

Comparative Investment Schedule – PSF(SBOE)1

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

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

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

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

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

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

Liquid Account Fair Value at August 31, 2020[1]

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

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

[1] In millions of dollars.

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

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

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program, but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

Changes in SBOE-determined multiplier for State law capacity

Date	Multiplier
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the

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

Charter District Risk Factors

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

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

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

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

Infectious Disease Outbreak

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

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, 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]

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

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

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

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2020[1]

Portfolio	Return	Benchmark Return[2]
Total PSF(SBOE) Portfolio	7.50%	8.54%
Domestic Large Cap Equities(SBOE)	22.37	21.94
Domestic Small/Mid Cap Equities(SBOE)	3.44	2.83
International Equities(SBOE)	8.80	8.31
Emerging Market Equity(SBOE)	15.84	14.49
Fixed Income(SBOE)	5.50	6.47
Absolute Return(SBOE)	4.43	7.19
Real Estate(SBOE)	2.93	1.26
Private Equity(SBOE)	4.63	4.85
Risk Parity(SBOE)	2.41	16.20
Real Return(SBOE)	3.33	2.85
Emerging Market Debt(SBOE)	1.67	1.55
Liquid Short-Term Fixed Income(SBOE)	2.78	3.40
Liquid Transition Cash Reserves(SBOE)	1.62	1.26
Liquid Combined(SBOE)	2.35	2.04
PSF(SLB)	-12.27	N/A

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2020, the remaining commitments totaled approximately $2.73 billion.

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

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

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

At the end of the 2020 fiscal year, PSF assets guaranteed $90.3 billion in bonds issued by 872 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the

Fund has guaranteed 7,789 school district and charter district bond issues totaling $202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by $5.9 billion or 7.0%. The State Capacity Limit increased by $4.7 billion, or 3.8%, during fiscal year 2020 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2020 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Guarantee Program.

Other Events and Disclosures

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

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

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

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

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Offering Memorandum 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 Offering Memornadum.

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 Offering Memorandum. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

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

2021 Regular and Special Legislative Sessions

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

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

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

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

Enrichment Tax Rate

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

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

State Funding for School Districts

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

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

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

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

Tier One

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. 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 2020-2021 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 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been $35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2022-2023 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) $40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of $60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were $35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first $0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2022-2023 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2022-2023 State fiscal biennium on new bonds issued by school districts in the 2022-2023 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2021 Legislative Session, the State Legislature appropriated funds in the amount of $70,000,000 for each fiscal year of the 2022-2023 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity

The Commissioner may adjust a school district's funding entitlement if the funding formulas used to determine the school district's entitlement result in an unanticipated loss or gain for a school district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year.

Additionally, the Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Notwithstanding the foregoing, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds $400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $25,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person's residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse's residence homestead if the spouse was at least 55 years old. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than $5,000) and (2) an additional exemption of at least $3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-in-Transit Exemptions

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not vote to extend this program, which is now scheduled to expire by its terms effective December 31, 2022.

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on May 18, 1963 pursuant to Article 2784e-1, Texas Revised Civil Statues Annotated, as amended.

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

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as "new money bonds" and are subject to the $0.50 threshold tax rate test. The District has not 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 datethe certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-new-revenue tax rate" calculated for that tax year or the tax rate adopted by the school district for the preceding tax year. A school district's failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

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

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

The District collects an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Rusk County Tax Assessor and Gregg County Tax Assessor.

The District does not allow split payments of taxes on homesteads 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 grant tax abatements.

The District does grant the freeport exemption.

Other than the State-mandated exemptions of $25,000 for general homestead and an additional $10,000 for persons who are 65 years of age or older and who are disabled, the District does not grant a local option exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

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

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of the Plan 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 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 "8. Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. Contribution requirements to TRS-Care are legally established each biennium by the State legislature. See "9. Defined Other Post-Employment Benefit Plans" in the Financial Statements.

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

In June 2012, Government Accounting Standards Board (GASB) issued Statement No. 68 (Accounting and Financial Reporting for Pensions) which was later amended by Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "APPENDIX A – Change in Net Assets". GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's) based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying rating, including the Bonds, is "Aa3" by Moody's.

An explanation of the significance of such ratings may be obtained from Moody's. The rating on the Bonds by Moody's reflects only the view of Moody's at the time the rating was given, and the District makes no representations as to the appropriateness of the rating. There is no assurance that the rating, or either of them, will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by Moody's, if, in the judgment of Moody's, circumstances so warrant. The above ratings are not a recommendation to buy, sell or hold the Bonds, and any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel's opinion is attached hereto as Appendix C. The District expects to pay the fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Offering Memorandum.

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

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

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the “Code”), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. Bond Counsel’s opinion does not cover the effect on excludability of interest of subsequent action under the terms of the Order that may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law. A form of Bond Counsel’s legal opinion appears in Appendix C hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the “Discount Bonds”). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the redemption, sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The purchase price of certain Bonds (the “Premium Bonds”) paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District’s investment policies are subject to change. Under Texas law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the “FDIC”) or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the “NCUSIF”) or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the Public Funds Investment Act (Chapter 2256, Government Code) as amended (the “PFIA”), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District’s account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above, clause (12) below, or, if applicable, which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

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

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the Texas Securities Board to provide such services.

As a school district that qualifies as an "issuer" under Chapter 1371, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in "AA-" or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

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

Current Investments

As of August 31, 2021 the District had approximately $6,006,248 invested in a government investment pool that generally has the characteristics of a money-market fund. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Offering Memorandum. 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 Offering Memorandum. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with Rule 15c2-12.

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted an underwriter to purchase or sell Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, to the best of its knowledge, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

LITIGATION

The District is a defendant to a lawsuit filed originally in 2016 by three local property tax payers, in which Texas Attorney General Ken Paxton intervened on behalf of the State of Texas. This lawsuit claims that the District illegally removed its local optional homestead following action taken by the Texas Legislature with the passage of SB1. The District has calculated estimates to the extent the matter is decided adversely to the District, and as of January 2022 the District has set aside roughly $9.4 million and $1.2 million in its General Fund and its Interest and Sinking Fund, respectively. In February 2020 the plaintiffs filed an amended class-action petition on behalf of one of the original suitors, nine new individuals, and others similarly situated. On June 1, 2022 a "Joint Proposed Joint Control Order was agreed upon by both parties and approved by the court setting dates for various deadlines to bring this matter to a close, setting the trial date for September 19, 2022. The latest action on this matter was a hearing on December 6, 2021 in which the court allowed the plaintiffs "Notice of Hearing on Plaintiffs' Motion for Class Certification to stand. The District continues to aggressively defend itself in this matter.

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

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

FORWARD LOOKING STATEMENTS

The statements contained in this Offering Memorandum, 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 Offering Memorandum 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 Offering Memorandum would prove to be accurate.

UNDERWRITING

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

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

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

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

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

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

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

CONCLUDING STATEMENT

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

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

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

____

President, Board of Trustees

ATTEST:

____

Secretary, Board of Trustees

APPENDIX A

FINANCIAL INFORMATION OF THE DISTRICT

KILGORE INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION [1] [2]

2021/22 Total Valuation		$ 1,966,237,416
Less Exemptions & Deductions:		
State Homestead Exemption	$ 109,041,620	
State Over-65 Exemption	19,237,493	
Disabled Exemption	9,337,648	
Veterans Exemption	1,079,828	
Surviving Spouse Disabled Veteran Exemption	440,220	
Freeport Exemption	72,175,218	
Pollution Control Exemption	391,900	
Other Exemptions	1,376,110	
Productivity Loss	100,628,976	
Homestead Cap Loss	4,119,609	
	$ 317,828,622	
2021/22 Certified Net Taxable Valuation		$ 1,648,408,794

(1) Source: Gregg and Rusk County Appraisal Districts Certified Value as of July 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" herein.
(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled $72,946,312 for 2020/21.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		$ 32,945,000
Plus: The Fixed Rate Series 2022 Bonds [1]		88,000,000
Plus: The Adjustable Rate Series 2022 Bonds [1]		25,000,000
Total Unlimited Tax Bonds [1] [2]		145,945,000
Less: Interest & Sinking Fund Balance (As of August 31, 2021) [2]		(4,341,905)
Net General Obligation Debt		$ 141,603,095
Ratio of Net G.O. Debt to Net Taxable Valuation [3]	8.59%	
2022 Population Estimate [4]	22,912	
Per Capita Net Taxable Valuation	$71,945	
Per Capita Net G.O. Debt	$6,180	

(1) Preliminary, subject to change.
(2) Source: Kilgore ISD Audited Financial Statements.
(3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "DEBT SERVICE REQUIREMENTS" and the "Audited Financial Report Fiscal Year Ended August 31, 2021" herein for more information relative to the District's long-term obligations other than unlimited tax bonds.
(4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable Valuation	Tax Rate	% Collections [4] Current [5]	Total [5]
2006/07	$ 1,108,172,258 [1]	$ 1.4667 [6]	97.23%	100.05%
2007/08	1,274,229,885 [1]	1.1331 [6]	96.11%	99.42%
2008/09	1,634,347,655 [1]	1.1210	97.56%	100.68%
2009/10	1,728,112,241 [1]	1.1092	97.31%	99.65%
2010/11	1,679,219,711 [1]	1.1092	97.79%	100.10%
2011/12	1,707,509,634 [1]	1.3092	98.03%	100.09%
2012/13	1,707,858,175 [1]	1.3092	96.56%	98.44%
2013/14	1,692,822,576 [1]	1.3092	96.86%	98.68%
2014/15	1,672,340,180 [1]	1.3092	96.69%	98.76%
2015/16	1,703,954,196 [1] [3]	1.3092	96.73%	98.50%
2016/17	1,615,676,018 [1] [3]	1.3092	97.31%	99.29%
2017/18	1,596,657,845 [1] [3]	1.3092	97.39%	99.72%
2018/19	1,669,911,635 [1] [3]	1.3092	97.66%	105.34%
2019/20	1,817,546,169 [1] [3]	1.2392 [7]	96.33%	99.15%
2020/21	1,755,607,044 [1] [3]	1.2256	97.59%	101.02%
2021/22	1,648,408,794 [2] [3]	1.2226	(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.
(2) Source: Gregg and Rusk County Appraisal Districts Certified Value as of July 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: Kilgore 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" herein.
(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" herein.

TAX RATE DISTRIBUTION

	2017/18	2018/19	2019/20 (1)	2020/21 (1)	2021/22
Maintenance & Operations	$1.0400	$1.0400	$0.9700	$0.9664	$0.9634
Debt Service	$0.2692	$0.2692	$0.2692	$0.2592	$0.2592
Total Tax Rate	$1.3092	$1.3092	$1.2392	$1.2256	$1.2226

(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	$ 1,108,172,258	$ 11,720,000	1.06%
2007/08	1,274,229,885	10,860,000	0.85%
2008/09	1,634,347,655	9,975,000	0.61%
2009/10	1,728,112,241	9,055,000	0.52%
2010/11	1,679,219,711	8,105,000	0.48%
2011/12	1,707,509,634	50,650,000	2.97%
2012/13	1,707,858,175	49,480,000	2.90%
2013/14	1,692,822,576	48,275,000	2.85%
2014/15	1,672,340,180	47,025,000	2.81%
2015/16	1,703,954,196	45,735,000	2.68%
2016/17	1,615,676,018	44,385,000	2.75%
2017/18	1,596,657,845	42,975,000	2.69%
2018/19	1,669,911,635	41,985,000	2.51%
2019/20	1,817,546,169	36,385,000	2.00%
2020/21	1,755,607,044	32,945,000	1.88%
2021/22	1,648,408,794 (3)	143,905,000 (4)	8.73%

(1) At fiscal year end.
(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "DEBT SERVICE REQUIREMENTS" and see the "Audited Financial Report Fiscal Year Ended August 31, 2021" herein for more information.
(3) Source: Certified Values from the Gregg and Rusk County Apraisal Districts as of July 2021.
(4) Preliminary, subject to change. Includes the Fixed Rate Series 2022 Bonds and Adjustable Rate Series 2022 Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Gregg Co	$ -	13.30%	$ -
Kilgore, City of	2,445,000	94.35%	2,306,858
Rusk Co	2,565,000	11.84%	303,696
Total Overlapping Debt (1)			$ 2,610,554
Kilgore Independent School District (2)			141,603,095
Total Direct & Overlapping Debt (2)			$ 144,213,649

Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation	8.75%
Per Capita Direct & Overlapping Debt	$6,294

(1) Equals gross debt less self-supporting debt.
(2) Includes the Fixed Rate Series 2022 Bonds and Adjustable Rate Series 2022 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
Hammer Time Owner LP	Wholesale Supplier	$ 41,868,880	2.54%
Southern Plastics Inc.	Industrial Manufacturing	36,284,221	2.20%
Orgill Inc.	Wholesale Supplier	30,973,040	1.88%
McClung Energy Services LLC	Industrial Manufacturing	18,388,860	1.12%
Skeeter Products Inc.	Boat Manufacturer	18,139,795	1.10%
AEP Southwestern Elec Power Co.	Utilities	16,375,830	0.99%
Cudd Pressure Control (CPS)	Oil & Gas	15,009,540	0.91%
Wal-Mart Stores Texas LP	Retail Store	11,852,160	0.72%
Longview Truck Center	Commercial Trucking Center	11,188,740	0.68%
Martin Gas Sales LP	Oil & Gas	10,855,977	0.66%
		$ 210,937,043	12.80%

2020/21 Top Ten Taxpayers (2)

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Halliburton Energy Services (3)	Oil & Gas	$ 47,891,139	2.73%
Hammer Time Owner LP	Wholesale Supplier	41,996,390	2.39%
Southern Plastics Inc.	Industrial Manufacturing	33,029,179	1.88%
Orgill Inc.	Wholesale Supplier	30,212,015	1.72%
Cudd Pressure Control (CPS)	Oil & Gas	27,915,540	1.59%
McClung Energy Services LLC	Industrial Manufacturing	23,190,760	1.32%
Legend Energy Services LLC	Oil & Gas	19,122,100	1.09%
Longview Truck Center	Commercial Trucking Center	14,456,640	0.82%
Skeeter Products Inc.	Boat Manufacturer	12,384,943	0.71%
Pak-Sher Co.	Industrial Manufacturing	11,976,030	0.68%
		$ 262,174,736	14.93%

2019/20 Top Ten Taxpayers (2)

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Legend Energy Services LLC	Oil & Gas	$ 64,622,890	3.56%
Halliburton Energy Services (3)	Oil & Gas	63,369,200	3.49%
Cudd Pressure Control (CPS)	Oil & Gas	52,412,090	2.88%
Southern Plastics Inc.	Industrial Manufacturing	32,928,900	1.81%
McClung Energy Services LLC	Industrial Manufacturing	24,094,620	1.33%
OG Dallas TX Landlord LLC/Orgill Inc.	Wholesale Supplier	23,943,427	1.32%
Longview Truck Center	Commercial Trucking Center	19,221,730	1.06%
Hammer Time Owner (TX) LP	Real Estate	17,955,000	0.99%
Premier Pressure Pumping	Oil & Gas	13,378,420	0.74%
Baker Petrolite	Petrochemicals	11,911,750	0.66%
		$ 323,838,027	17.82%

(1) Source: Gregg and Rusk County Appraisal Districts.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) A top taxpayer of the District, Halliburton Energy Services, previously shuttered its facilities within the District's boundaries, and District officials are planning that such event will impact the District's prospective tax receipts, this year, at an estimated amount of $1,000,000 (which is currently offset by the receipt of State revenues) resulting in an overall impact of $200,000.
Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 13% of the District's tax base, with the majority of such property comprised of minerals and related business activities, such as oil field service companies, which are subject to fluctuation in terms of market valuation and availability (and recent events such as COVID-19 significantly increased the volatility in this market sector). Adverse developments in economic conditions, especially in the oil and gas industry, could adversely impact the businesses that own related properties in the District and the tax values in the District, resulting in less local tax revenue.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2021/22 (1)	% of Total	2020/21 (2)	% of Total	2019/20 (2)	% of Total
Real, Residential, Single-Family	$ 738,166,911	37.54%	$ 714,319,602	34.86%	$ 701,380,692	33.20%
Real, Residential, Multi-Family	29,901,251	1.52%	29,290,570	1.43%	25,312,860	1.20%
Real, Vacant Lots/Tracts	25,079,985	1.28%	25,050,796	1.22%	23,578,560	1.12%
Real, Qualified Land & Improvements	113,420,291	5.77%	103,231,405	5.04%	89,758,577	4.25%
Real, Non-Qualified Land & Improvements	118,518,364	6.03%	111,190,263	5.43%	105,226,178	4.98%
Real, Commercial & Industrial	296,944,420	15.10%	284,159,968	13.87%	255,787,057	12.11%
Oil & Gas	26,789,753	1.36%	40,528,239	1.98%	60,907,910	2.88%
Utilities	58,409,500	2.97%	56,263,310	2.75%	53,670,400	2.54%
Tangible Personal, Commercial	288,631,360	14.68%	308,396,511	15.05%	306,420,249	14.50%
Tangible Personal, Industrial	251,947,880	12.81%	357,469,780	17.45%	472,100,080	22.35%
Tangible Personal, Mobile Homes & Other	9,678,241	0.49%	9,544,001	0.47%	9,836,241	0.47%
Tangible Personal, Residential Inventory	414,710	0.02%	816,360	0.04%	585,480	0.03%
Special Inventory	8,334,750	0.42%	8,657,710	0.42%	7,998,230	0.38%
Total Appraised Value	$ 1,966,237,416	100.00%	$ 2,048,918,515	100.00%	$ 2,112,562,514	100.00%
Less:						
Homestead Cap Adjustment	$ 4,119,609		$ 3,736,229		$ 5,564,828	
Productivity Loss	100,628,976		90,826,343		77,554,170	
Exemptions (3)	213,080,037		198,748,899		211,897,347	
Total Exemptions/Deductions (4)	$ 317,828,622		$ 293,311,471		$ 295,016,345	
Net Taxable Assessed Valuation	$ 1,648,408,794		$ 1,755,607,044		$ 1,817,546,169	

Category	2018/19 (2)	% of Total	2017/18 (2)	% of Total	2016/17 (2)	% of Total
Real, Residential, Single-Family	$ 676,226,672	34.52%	$ 670,108,251	35.55%	$ 659,494,682	34.69%
Real, Residential, Multi-Family	24,177,490	1.23%	25,225,150	1.34%	24,222,440	1.27%
Real, Vacant Lots/Tracts	22,632,992	1.16%	23,209,211	1.23%	22,815,957	1.20%
Real, Qualified Land & Improvements	88,776,400	4.53%	90,908,252	4.82%	91,032,206	4.79%
Real, Non-Qualified Land & Improvements	102,512,266	5.23%	100,361,869	5.32%	97,112,584	5.11%
Real, Commercial & Industrial	250,334,447	12.78%	252,928,200	13.42%	250,393,680	13.17%
Oil & Gas	50,283,081	2.57%	36,000,088	1.91%	32,945,790	1.73%
Utilities	57,044,060	2.91%	55,893,270	2.97%	62,910,250	3.31%
Tangible Personal, Commercial	247,398,882	12.63%	242,023,316	12.84%	250,239,285	13.16%
Tangible Personal, Industrial	421,059,570	21.50%	370,517,710	19.66%	391,626,970	20.60%
Tangible Personal, Mobile Homes & Other	9,264,461	0.47%	9,428,651	0.50%	9,391,241	0.49%
Tangible Personal, Residential Inventory	493,940	0.03%	604,740	0.03%	618,570	0.03%
Special Inventory	8,630,620	0.44%	7,585,380	0.40%	8,544,200	0.45%
Total Appraised Value	$ 1,958,834,881	100.00%	$ 1,884,794,088	100.00%	$ 1,901,347,855	100.00%
Less:						
Homestead Cap Adjustment	$ 2,413,723		$ 3,063,523		$ 3,860,721	
Productivity Loss	78,335,375		80,806,998		81,621,043	
Exemptions (3)	208,174,148		204,265,722		200,190,073	
Total Exemptions/Deductions (4)	$ 288,923,246		$ 288,136,243		$ 285,671,837	
Net Taxable Assessed Valuation	$ 1,669,911,635		$ 1,596,657,845		$ 1,615,676,018	

(1) Source: Gregg and Rusk County Appraisal Districts Certified Value as of July 2021.
(2) Source: Comptroller of Public Accounts - Property Tax Division.
(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.
(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds	Plus: The Fixed Rate Series 2022 Bonds (1)	Plus: The Adjustable Rate Series 2022 Bonds (1)	Total (1)	Bonds Unpaid At Fiscal Year End	Percent of Principal Retired
2022	$ 2,040,000.00	$ -	$ -	$ 2,040,000.00	$ 143,905,000.00	1.40%
2023	2,095,000.00	1,265,000.00	-	3,360,000.00	140,545,000.00	3.70%
2024	2,155,000.00	1,290,000.00	-	3,445,000.00	137,100,000.00	6.06%
2025	2,215,000.00	1,320,000.00	-	3,535,000.00	133,565,000.00	8.48%
2026	2,020,000.00	1,205,000.00	-	3,225,000.00	130,340,000.00	10.69%
2027	1,615,000.00	1,675,000.00	-	3,290,000.00	127,050,000.00	12.95%
2028	1,690,000.00	1,705,000.00	-	3,395,000.00	123,655,000.00	15.27%
2029	1,775,000.00	1,745,000.00	-	3,520,000.00	120,135,000.00	17.68%
2030	1,870,000.00	1,780,000.00	-	3,650,000.00	116,485,000.00	20.19%
2031	1,955,000.00	1,835,000.00	-	3,790,000.00	112,695,000.00	22.78%
2032	2,035,000.00	1,890,000.00	-	3,925,000.00	108,770,000.00	25.47%
2033	2,115,000.00	1,950,000.00	-	4,065,000.00	104,705,000.00	28.26%
2034	2,205,000.00	2,005,000.00	-	4,210,000.00	100,495,000.00	31.14%
2035	2,295,000.00	2,065,000.00	-	4,360,000.00	96,135,000.00	34.13%
2036	2,385,000.00	2,135,000.00	-	4,520,000.00	91,615,000.00	37.23%
2037	2,480,000.00	2,200,000.00	-	4,680,000.00	86,935,000.00	40.43%
2038		4,660,000.00	-	4,660,000.00	82,275,000.00	43.63%
2039		4,800,000.00	-	4,800,000.00	77,475,000.00	46.91%
2040		4,945,000.00	-	4,945,000.00	72,530,000.00	50.30%
2041		5,095,000.00	-	5,095,000.00	67,435,000.00	53.79%
2042		5,250,000.00	-	5,250,000.00	62,185,000.00	57.39%
2043		5,410,000.00	-	5,410,000.00	56,775,000.00	61.10%
2044		5,575,000.00	-	5,575,000.00	51,200,000.00	64.92%
2045		5,745,000.00	-	5,745,000.00	45,455,000.00	68.85%
2046		5,920,000.00	-	5,920,000.00	39,535,000.00	72.91%
2047		6,100,000.00	-	6,100,000.00	33,435,000.00	77.09%
2048		6,290,000.00	-	6,290,000.00	27,145,000.00	81.40%
2049		2,145,000.00	4,335,000.00	6,480,000.00	20,665,000.00	85.84%
2050			6,685,000.00	6,685,000.00	13,980,000.00	90.42%
2051			6,885,000.00	6,885,000.00	7,095,000.00	95.14%
2052			7,095,000.00	7,095,000.00	-	100.00%
Total	$ 32,945,000.00	$ 88,000,000.00	$ 25,000,000.00	$ 145,945,000.00		

(1) Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Less: Series 2012 QSCB Federal Subsidy [1]	Plus: The Fixed Rate Series 2022 Bonds [2] Principal	Interest	Total	Plus: The Adjustable Rate Series 2022 Bonds [2] [3] Principal	Interest	Total	Combined Total [1] [2] [3] [4]
2022	$ 3,399,592.50	$ 140,271.25	$ -	$ 1,266,750.00	$ 1,266,750.00	$ -	$ 156,250.00	$ 156,250.00	$ 4,682,321.25
2023	3,398,780.00	140,271.25	1,265,000.00	2,520,850.00	3,785,850.00	-	312,500.00	312,500.00	7,356,858.75
2024	3,400,480.00	140,271.25	1,290,000.00	2,495,300.00	3,785,300.00	-	312,500.00	312,500.00	7,358,008.75
2025	3,399,385.00	140,271.25	1,320,000.00	2,469,200.00	3,789,200.00	-	312,500.00	312,500.00	7,360,813.75
2026	3,142,170.00	140,271.25	1,205,000.00	2,443,950.00	3,648,950.00	-	750,000.00	750,000.00	7,400,848.75
2027	2,603,425.00	70,135.63	1,675,000.00	2,415,150.00	4,090,150.00	-	750,000.00	750,000.00	7,373,439.37
2028	2,533,300.00		1,705,000.00	2,381,350.00	4,086,350.00	-	750,000.00	750,000.00	7,369,650.00
2029	2,531,675.00		1,745,000.00	2,346,850.00	4,091,850.00	-	750,000.00	750,000.00	7,373,525.00
2030	2,535,550.00		1,780,000.00	2,304,925.00	4,084,925.00	-	750,000.00	750,000.00	7,370,475.00
2031	2,534,700.00		1,835,000.00	2,252,925.00	4,087,925.00	-	750,000.00	750,000.00	7,372,625.00
2032	2,534,900.00		1,890,000.00	2,197,050.00	4,087,050.00	-	750,000.00	750,000.00	7,371,950.00
2033	2,531,900.00		1,950,000.00	2,139,450.00	4,089,450.00	-	750,000.00	750,000.00	7,371,350.00
2034	2,535,500.00		2,005,000.00	2,080,125.00	4,085,125.00	-	750,000.00	750,000.00	7,370,625.00
2035	2,535,500.00		2,065,000.00	2,019,075.00	4,084,075.00	-	750,000.00	750,000.00	7,369,575.00
2036	2,531,900.00		2,135,000.00	1,956,075.00	4,091,075.00	-	750,000.00	750,000.00	7,372,975.00
2037	2,529,600.00		2,200,000.00	1,891,050.00	4,091,050.00	-	750,000.00	750,000.00	7,370,650.00
2038			4,660,000.00	1,788,150.00	6,448,150.00	-	750,000.00	750,000.00	7,198,150.00
2039			4,800,000.00	1,646,250.00	6,446,250.00	-	750,000.00	750,000.00	7,196,250.00
2040			4,945,000.00	1,500,075.00	6,445,075.00	-	750,000.00	750,000.00	7,195,075.00
2041			5,095,000.00	1,349,475.00	6,444,475.00	-	750,000.00	750,000.00	7,194,475.00
2042			5,250,000.00	1,194,300.00	6,444,300.00	-	750,000.00	750,000.00	7,194,300.00
2043			5,410,000.00	1,034,400.00	6,444,400.00	-	750,000.00	750,000.00	7,194,400.00
2044			5,575,000.00	869,625.00	6,444,625.00	-	750,000.00	750,000.00	7,194,625.00
2045			5,745,000.00	699,825.00	6,444,825.00	-	750,000.00	750,000.00	7,194,825.00
2046			5,920,000.00	524,850.00	6,444,850.00	-	750,000.00	750,000.00	7,194,850.00
2047			6,100,000.00	344,550.00	6,444,550.00	-	750,000.00	750,000.00	7,194,550.00
2048			6,290,000.00	158,700.00	6,448,700.00	-	750,000.00	750,000.00	7,198,700.00
2049			2,145,000.00	32,175.00	2,177,175.00	4,335,000.00	684,975.00	5,019,975.00	7,197,150.00
2050						6,685,000.00	519,675.00	7,204,675.00	7,204,675.00
2051						6,885,000.00	316,125.00	7,201,125.00	7,201,125.00
2052						7,095,000.00	106,425.00	7,201,425.00	7,201,425.00
	$ 44,678,357.50	$ 771,491.88	$ 88,000,000.00	$ 46,322,450.00	$ 134,322,450.00	$ 25,000,000.00	$ 19,970,950.00	$ 44,970,950.00	$ 223,200,265.62

(1) The Direct Pay Subsidy represents 94.3% of the interest cost on the Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012.
(2) Preliminary, subject to change.
(3) For illustration purposes, interest on the Adjustable Rate Series 2022 Bonds is calculated at an assumed Term Rate of 1.25% through August 15, 2025. For illustration purposes, interest is calculated at an assumed rate of 3.00% thereafter through stated maturity (which is consistent with the District's planning estimate). Actual rates applicable to this bond at conclusion of a rate period are subject to market conditions at the time or times that this bond is remarketed. The Highest Rate that the bond interest rate could reset to is, commencing on or after August 15, 2025, is _.__%.
(4) Based on its wealth per student, the District does not expect to receive Instructional Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2021/22. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement [1]	$ 7,400,848.75
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption [2]	75,000.00
Projected Net Debt Service Requirement	$ 7,325,848.75
$0.44442 Tax Rate @ 100% Collections Produces	$ 7,325,848.80
2021/22 Certified Net Taxable Valuation	$ 1,648,408,794

(1) Includes the Fixed Rate Series 2022 Bonds and Adjustable Rate Series 2022 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."

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Fixed Rate Series 2022 Bonds and Adjustable Rate Series 2022 Bonds, the District will not have (preliminary, subject to change) authorized but unissued unlimited ad valorem tax bonds from the November 2, 2021 bond election or any other bond election, however, 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 Ending August 31				
	2017	2018	2019	2020	2021
Beginning Fund Balance	**$ 12,477,828**	**$ 14,384,929**	**$ 15,397,246**	**$ 17,413,068**	**$ 20,480,085**
Revenues:					
Local and Intermediate Sources	$ 16,503,952	$ 16,805,482	$ 17,637,390	$ 17,739,852	$ 17,164,588
State Program Revenues	13,887,652	15,476,975	16,010,680	17,677,406	20,224,402
Federal Sources & Other	843,948	492,804	304,150	421,027	317,270
Total Revenues	**$ 31,235,552**	**$ 32,775,261**	**$ 33,952,220**	**$ 35,838,285**	**$ 37,706,260**
Expenditures:					
Instruction	$ 16,519,016	$ 17,138,428	$ 16,945,711	$ 17,366,581	$ 17,316,867
Instructional Resources & Media Services	451,948	436,858	469,114	474,442	494,324
Curriculum & Instructional Staff Development	746,963	770,902	691,403	852,680	857,851
Instructional Leadership	307,352	343,634	366,372	366,695	306,370
School Leadership	1,998,230	1,899,955	2,004,142	2,065,176	2,203,240
Guidance, Counseling & Evaluation Services	1,029,392	1,113,180	1,206,759	1,387,430	1,463,928
Social Work Services	-	6,325	-	3,648	21,962
Health Services	271,126	269,040	273,133	360,088	295,693
Student (Pupil) Transportation	1,152,509	1,106,395	1,238,375	1,482,347	1,264,512
Food Services	66,573	31,487	4,250	18,177	6,427
Cocurricular/Extracurricular Activities	1,281,889	1,320,411	1,479,752	1,499,458	1,350,278
General Administration	1,217,668	1,238,227	1,234,544	1,295,988	1,458,819
Plant Maintenance and Operations	3,374,232	4,482,049	4,774,100	4,536,471	4,167,619
Security and Monitoring Services	267,613	304,567	434,873	314,430	133,287
Data Processing Services	328,065	336,824	445,653	466,131	468,293
Community Services	3,738	3,781	5,754	11,744	17,372
Capital Outlay	-	-	34,164	-	-
Other Intergovernmental Charges	312,137	309,773	334,438	333,407	326,823
Total Expenditures	**$ 29,328,451**	**$ 31,111,836**	**$ 31,942,537**	**$ 32,834,893**	**$ 32,153,665**
Excess (Deficiency) of Revenues over Expenditures	$ 1,907,101	$ 1,663,425	$ 2,009,683	$ 3,003,392	$ 5,552,595
Other Resources and (Uses):					
Sale of Real and Personal Property	$ -	$ 7,783	$ 6,139	$ -	$ -
Other Resources	-	9,155	-	63,625	485,672
Other Uses	-	(668,046)	-	-	-
Total Other Resources (Uses)	**$ -**	**$ (651,108)**	**$ 6,139**	**$ 63,625**	**$ 485,672**
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	$ 1,907,101	$ 1,012,317	$ 2,015,822	$ 3,067,017	$ 6,038,267
Ending Fund Balance	**$ 14,384,929**	**$ 15,397,246**	**$ 17,413,068**	**$ 20,480,085**	**$ 26,518,352**

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.

CHANGE IN NET ASSETS [1]

	Fiscal Year Ending August 31				
	2017	2018	2019	2020	2021
Revenues:					
Program Revenues:					
Charges for Services	$ 812,216	$ 795,186	$ 611,499	$ 495,623	$ 431,006
Operating Grants and Contributions	5,337,586	(351,076)	4,724,784	7,386,785	8,377,910
General Revenues:					
Property Taxes Levied for General Purposes	15,916,720	15,078,557	15,946,138	17,172,056	16,484,530
Property Taxes Levied for Debt Service	4,172,437	4,234,513	4,240,608	4,853,336	4,485,816
State Aid - Formula Grants	-	-	-	-	18,315,613
Grants and Contributions Not Restricted	13,862,674	14,676,549	17,505,150	17,649,524	469,839
Investment Earnings	169,695	423,262	631,603	331,826	90,446
Miscellaneous	518,220	583,703	562,450	546,195	816,902
Total Revenue	$ 40,789,548	$ 35,440,694	$ 44,222,232	$ 48,435,345	$ 49,472,062
Expenses:					
Instruction	$ 20,149,242	$ 13,652,407	$ 21,992,323	$ 23,504,190	$ 22,658,581
Instruction Resources & Media Services	508,126	363,748	535,698	547,405	553,549
Curriculum & Staff Development	906,665	681,240	965,123	1,110,026	1,007,965
Instructional Leadership	338,172	252,581	409,404	419,858	344,163
School Leadership	2,215,080	1,514,737	2,290,017	2,435,417	2,454,068
Guidance, Counseling & Evaluation Services	1,238,785	873,714	1,526,728	1,844,764	1,859,923
Social Work Services	20,198	76,903	-	3,967	21,962
Health Services	301,538	207,027	312,828	405,906	336,162
Student Transportation	1,294,445	1,105,171	1,491,028	1,574,699	1,503,274
Food Service	2,364,153	2,116,330	2,333,555	2,287,111	2,106,897
Cocurricular/Extracurricular Activities	1,633,726	1,207,870	1,818,122	1,834,707	1,696,048
General Administration	1,289,518	936,360	1,360,466	1,439,781	1,554,904
Plant Maintenance & Operations	3,227,675	3,973,122	4,180,737	4,187,109	4,176,424
Security and Monitoring Services	287,050	310,691	288,611	392,551	149,685
Data Processing Services	391,842	277,208	485,083	513,872	513,144
Community Services	5,409	3,781	6,541	16,882	23,942
Debt Service - Interest on Long-Term Debt	2,006,318	1,923,340	1,833,363	1,763,745	824,295
Debt Service - Bond Issuance Cost and Fees	3,375	3,129	5,100	4,300	347,997
Other Intergovernmental Charges	312,137	309,773	334,438	333,407	326,823
Total Expenditures	$ 38,493,454	$ 29,789,132	$ 42,169,165	$ 44,619,697	$ 42,459,806
Change in Net Assets	$ 2,296,094	$ 5,651,562	$ 2,053,067	$ 3,815,648	$ 7,012,256
Beginning Net Assets	$ 34,656,990	$ 36,953,085	$ 22,612,910	$ 24,665,979	$ 28,481,627
Prior Period Adjustment	$ -	$ (19,991,735) [2]	$ -	$ -	$ -
Ending Net Assets	$ 36,953,084	$ 22,612,912	$ 24,665,977	$ 28,481,627	$ 35,493,883

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted in the 2002 fiscal year.
(2) In fiscal year 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. As a result, the beginning net position has been restated to reflect the net OPEB liability and deferred outflow of resources relating to TRS-Care contributions made after the prior measurement date.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

KILGORE INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Kilgore Independent School District (the "District") is a petroleum producing and agricultural area, located primarily in Gregg County with a portion extending into Rusk County. The District includes the City of Kilgore, a commercial and oilfield supply center. The District's current estimated population is 22,912.

Gregg County is a northeast Texas county traversed by Interstate Highway 20, U.S. Highways 80 and 259 and State Highways 31, 42, 135, 300 and 322. The County seat is Longview.

Source: Texas Municipal Report for Kilgore ISD and Gregg County.

Enrollment Statistics

Year Ending 8/31	Enrollment
2010	3,792
2011	3,836
2012	3,898
2013	3,933
2014	4,030
2015	4,032
2016	4,060
2017	4,067
2018	4,051
2019	4,085
2020	4,048
2021	3,887
Current	3,890

District Staff

Teachers	342
Teachers' Aides & Secretaries	115
Auxiliary Personnel	82
Administrators	38
Other	34
	611

Facilities

Campus	Grades	Current Enrollment	Capacity	Year Built	Year of Addition/ Renovation
Kilgore Primary School	PK-1	689	950	2013	N/A
Chandler Elementary	2-3	529	900	1960	Addition 1990, Café Renovation 2008, Partial Renovation 2013
Kilgore Intermediate	4-5	601	750	1995	Addition 2013
Kilgore Middle School	6-8	912	1,000	2013	N/A
Kilgore High School	9-12	1,159	1,500	1932	Major Renovation 1996, Café 2014

Principal Employers within the District

Name of Company	Type of Business	Number of Employees
Kilgore Independent School District	Public Education	611
General Dynamics SATCOM	Satellite Communication	550
Kilgore College	Higher Education	320
Region VII Education Service Center	Regional Service Center	290
Martin Midstream Partners	Transporting Petroleum	241

Unemployment Rates

	November 2019	November 2020	November 2021
Gregg County	3.6%	8.0%	5.1%
Rusk County	3.6%	7.5%	4.9%
State of Texas	3.4%	6.9%	4.5%

Source: Texas Workforce Commission.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

[CLOSING DATE]

IN REGARD to the authorization and issuance of the "Kilgore Independent School District Adjustable Rate Unlimited Tax School Building Bonds, Series 2022," dated February 1, 2022, in the aggregate principal amount of $__________ (the "Bonds"), we have examined into their issuance by the Kilgore Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and have a Stated Maturity of February 15, 2052, unless redeemed prior to Stated Maturity in accordance with the applicable redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of their delivery to the initial purchaser through the end of the Initial Rate Period (as defined in the order authorizing the issuance of the Bonds (the "Order")), at the rate per annum stated in the Order, and such interest is payable on the dates described in the Order to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Order and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization,

moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OPINION herein on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the District shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the District must have received such an opinion.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of interests in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

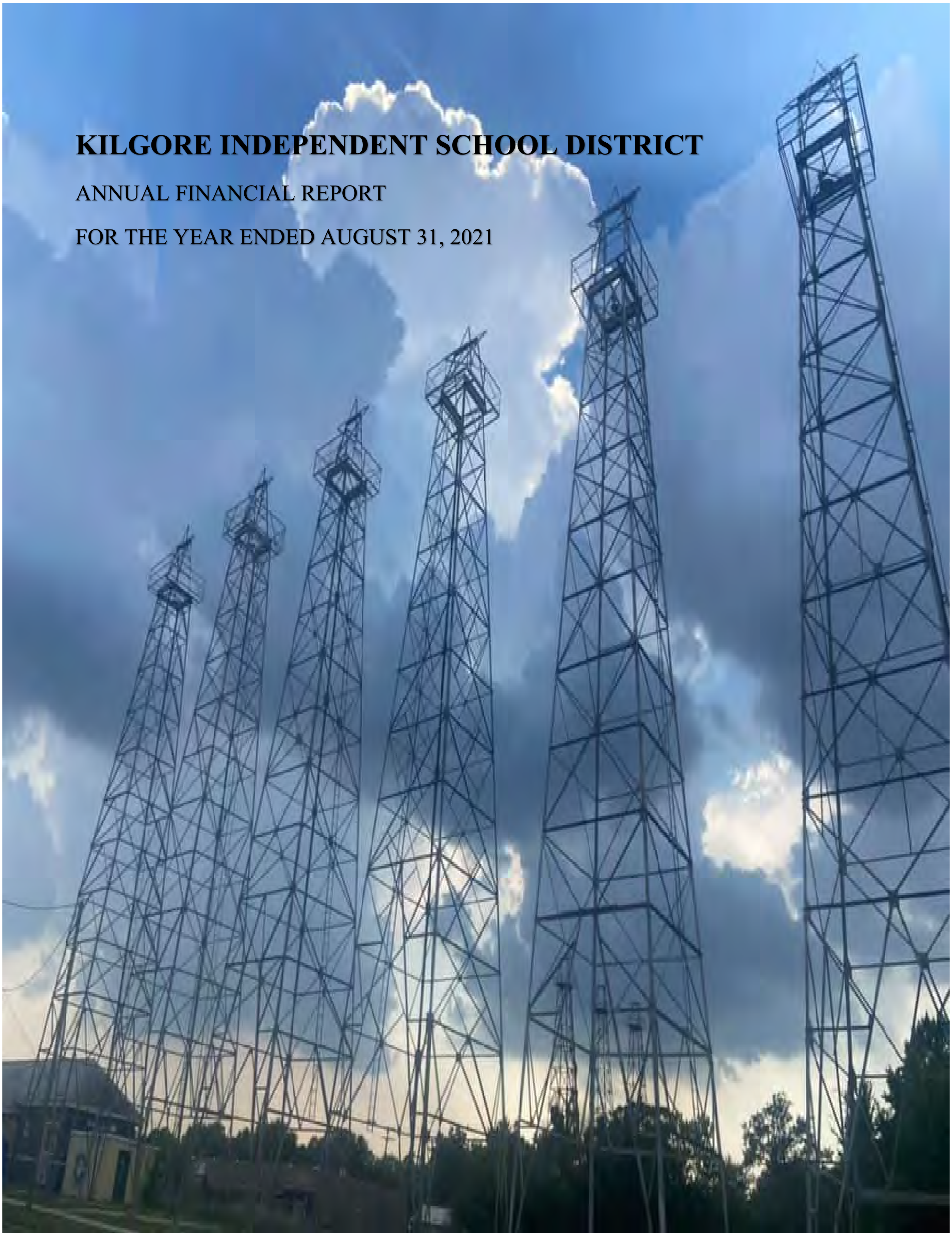
APPENDIX D

AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2021

KILGORE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2021



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KILGORE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2021

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CERTIFICATE OF BOARD

Kilgore Independent School District	Gregg	092-902
Name of School District	County	County-District

We, the undersigned, certify that the attached annual financial and compliance reports of the above named school district were reviewed and _X_ approved ___disapproved for the year ended August 31, 2021, at a meeting of the Board of Trustees of such school district on the 18th day of November, 2021.

Signature of Board Secretary

Signature of Board President

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FINANCIAL SECTION

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MAYS & ASSOCIATES PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
KILGORE INDEPENDENT SCHOOL DISTRICT
Kilgore, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kilgore 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.

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

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

Opinions

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

3720 Decker Drive • Baytown, TX 77520 • 281-424-1000 • Fax 281-422-3991 • www.mays-cpa.com

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 TRS pension and OPEB schedules, on pages 7-15 and 57-65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedules required by the Texas Education Agency and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules required by the Texas Education Agency 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mays & Associates

Mays & Associates, PLLC

Baytown, Texas
November 15, 2021

As management of the Kilgore Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2021. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by $35,493,883 *(net position)*.

- The District's governmental funds reported combined ending fund balances of $31,724,252, an increase of $6,301,239 in comparison with the prior year. The increase in governmental fund balances was due primarily to the excess revenue over expenditures. The District received additional state and grant funding compared to the previous year.

- The unassigned fund balance for the general fund was $14,259,382 or 44% of total general fund expenditures.

- The District's bonded debt decreased by $8,525,000 as a result of regularly scheduled debt payments and refunding during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis, the basic financial statements, and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The Statement of Net Position (Exhibit A-1) and the Statement of Activities (Exhibit B-1) are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

- The remaining Governmental Fund Financial Statements and the Fiduciary Fund Financial Statement focus on individual parts of the government and they report the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general government services were funded in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include Notes to the Financial Statements that explain in narrative form some of the information in the financial statements and also provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash was received or paid.
The two government-wide statements report the District's net position and how it has changed. Net position represents the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base and changes in student enrollment.

The government-wide financial statements of the District reflect the governmental activities which are principally supported by taxes and intergovernmental revenues. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration.

Fund Financial Statements

The fund financial statements (Exhibits C-1 through D-2) provide more detailed information about the District's most significant funds, but not the District as a whole. A fund is a group of accounts that the District uses to record specific sources of revenue and to track expenditures used for particular purposes.

- Some funds are required by State law and by bond covenants.

- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

1. *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide Exhibits C-2 and C-4 to explain the differences between them.

2. *Fiduciary Funds* – The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in separate statements (Exhibit D-1 & D-2). We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. GASB 84 was implemented during 2021, resulting in a prior period adjustment. See footnotes for additional information.

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information compares the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds with legally adopted budgets; therefore, only the general fund budget is presented as required supplementary information.

In addition, information related to the District's proportionate share of its net pension liability, net OPEB liability, and contributions to the Teacher Retirement System of Texas is also presented.

Other Information

The other supplementary information is presented immediately following the required supplementary information and includes schedules required by the Texas Education Agency.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources $35,493,852 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, and construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COMPARATIVE SCHEDULE OF NET POSITION

	Governmental Activities		Change
	2021	2020	2020-2021
Current and other assets	$ 36,514,745	$ 29,185,096	$ 7,329,649
Capital assets and non current assets	65,064,134	67,101,047	(2,036,913)
Total assets	101,578,879	96,286,143	5,292,736
Total deferred outflows of resources	5,033,223	5,918,504	(885,281)
Other liabilities	3,373,759	3,959,214	(585,455)
Long-term liabilities	58,791,534	62,794,652	(4,003,118)
Total liabilities	62,165,293	66,753,866	(4,588,573)
Total deferred inflows of resources	8,952,926	6,969,154	1,983,772
Net position:			
Net investment in capital assets	24,793,002	23,430,545	1,362,457
Restricted	5,264,255	5,140,934	123,321
Unrestricted	5,436,626	(89,852)	5,526,478
Total net position	$ 35,493,883	$ 28,481,627	$ 7,012,256

Unrestricted net position, which can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, amount to $5,436,626 at August 31, 2021. Unrestricted net position increased over the prior year due to excess revenues over operating expenses. The District's unrestricted net position includes the reporting of the District's proportionate share of the net pension and OPEB liabilities. The District's liability is reported in governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the pension and TRS-Care plans are funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

Additionally, net position is restricted for the following purposes:

	Governmental Activities	
	2021	2020
Federal and state programs	$ 709,894	$ 640,796
Debt Services	4,554,361	4,467,716
Other purposes	-	32,422
	$ 5,264,255	$ 5,140,934

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

	Governmental Activities				Change
	2021	%	2020	%	2020-2021
Revenues					
Program revenues:					
Charges for services	$ 431,006	1%	$ 495,623	1%	$ (64,617)
Operating grants & contributions	8,377,910	17%	7,386,785	15%	991,125
General revenues:					
Property taxes	20,970,346	42%	22,025,392	45%	(1,055,046)
State aid - formula grants	18,315,613	37%	17,649,524	36%	666,089
Grants and contributions not restricted	469,839	1%	-	0%	469,839
Investment earnings	90,446	0%	331,826	1%	(241,380)
Other	816,902	2%	546,195	1%	270,707
Total revenues	49,472,062	100%	48,435,345	100%	1,036,717
Expenses:					
Instruction and related services	24,220,095	57%	25,161,621	56%	(941,526)
Instructional and school leadership	2,798,231	7%	2,855,275	6%	(57,044)
Support services - student	7,524,266	18%	7,951,154	18%	(426,888)
Administrative support services	1,554,904	4%	1,439,781	3%	115,123
Support services - non-student based	4,863,195	11%	5,110,414	11%	(247,219)
Debt service	1,172,292	3%	1,768,045	4%	(595,753)
Intergovernmental charges	326,823	1%	333,407	1%	(6,584)
Total expenses	42,459,806	100%	44,619,697	100%	(2,159,891)
Increase (decrease) in net position	7,012,256		3,815,648		3,196,608
Net position, beginning	28,481,627		24,665,979		3,815,648
Prior period adjustment	-		-		-
Net position, ending	$ 35,493,883		$ 28,481,627		$ 7,012,256

Governmental Activities

The increase in Net Position of $7,012,256 results primarily from increased operating grants & state funding, coupled with a decrease in operating expenses.

Governments providing defined benefit pension plans and other post-employment benefits were required to recognize their long-term obligation for pension and OPEB benefits as a liability on their accrual-based, government-wide statement of net position. This provides citizens and other users of these financial reports with a clearer picture of the size and nature of the financial obligations to current and former employees. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The implementation of these standards clearly depicts the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Reporting the net pension liability and net OPEB liability on the face of the financial statements will more clearly portray the government's financial status because the pension and OPEB liabilities will be placed on an equal footing with other long-term obligations.

At August 31, 2021, the District reported a net pension liability of $7,902,304 for its proportionate share of TRS's net pension liability and a net OPEB liability of $10,560,312 for its proportionate share of the District's Other Post-

Employment benefits other than pensions. At August 31, 2020, the District's net pension liability and OPEB liability was $7,912,777 and $12,981,373, respectively.

Revenues are generated primarily from the following three sources: property taxes, state-aid formula grants, and operating grants and contributions. When combined ($47,663,869), these represented approximately 95 percent of total revenues. The remaining $1,808,193 or 5 percent was generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expenses of the District were instruction and related services, student support services, and non-student support services which represented 86 percent of total expenses. The remaining functional expenses represent less than 10 percent each of the total expenditures.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

At August 31, 2021, the District's governmental funds reported combined fund balances of $31,724,252, an increase of $6,301,239 in comparison with the prior year. Approximately 45% or $14,259,382 of combined fund balance constitutes *unassigned fund balance.*

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $14,259,382 while total fund balance reached $26,518,352. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. As of August 30, 2021, these were 44% and 82%, respectively. Unassigned fund balance increased $4,469,246 from the prior year primarily due to results of operation.

The debt service fund has a total fund balance of $4,341,905, all of which is reserved for the payment of debt service. The net increase in the debt service fund balance during the current year was $197,429. This increase results from debt service revenues exceeding expenditures. In addition, the District refunded its Series 2011 bonds which reduced its total debt service requirements by $9,156,921 and realized a present value savings of $7,988,811.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	BUDGET	
	Original	Final
Total revenues	$ 36,445,349	$ 37,806,438
Total expenditures	36,223,949	37,152,336
Other financing sources (uses)	-	600,000
Net change in fund balance	$ 221,400	$ 1,254,102

The District originally adopted a surplus budget for fiscal year 2021. The District subsequently amended its budget during the year increasing its surplus balance to $1,254,202. Actual revenues fell below budgeted revenues by $100 thousand, which was primarily related to state revenue. Actual expenditures fell below budgeted expenditures by $4.9 million. Final amended budget projected an increase of $1.2 million; however, the general fund balance increased by $6,038,267 based on actual results.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2021, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets (capital outlays) decreased during the current year by $2,036,913 due primarily to current year additions offset by depreciation.

The following table summarizes the investment in capital assets as of August 31, 2021 and 2020.

	2021	2020
Land	$ 3,132,484	$ 3,132,484
Buildings and improvements	86,882,560	86,688,335
Furniture and equipment	15,203,211	15,153,796
Construction in progress	-	-
	105,218,255	104,974,615
Accumulated depreciation	(40,154,212)	(37,873,568)
Net capital assets	$ 65,064,043	$ 67,101,047

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

Long-Term Liabilities

As of August 31, 2021, the District had total long-term debt liabilities of $34,355,000. The District's bonded debt decreased by $8,525,00 over the prior year due to regularly scheduled debt payments and refunding of the Series 2011 bonds. The District's general obligation bonds are rated "Aaa" and "A3" by Standard & Poor and Moody's Investors Service, respectively. The bonds are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy.

Changes in long-term debt for the year ended August 31, 2021 are as follows:

	Outstanding 9/1/2020	Additions	Reductions	Outstanding 8/31/2021
General obligation bonds	$ 42,880,000	$ 28,045,000	$ (36,570,000)	$ 34,355,000
Deferred bond components	867,631	6,138,578	(1,032,291)	5,973,918
Other liabilities	20,894,150	-	(2,431,534)	18,462,616
	$ 64,641,781	$ 34,183,578	$ (40,033,825)	$ 58,791,534

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's taxable value for 2021 decreased $106,761,736, or 6.08% from 2020 values, the second consecutive decline.

- The District's Board of Trustees, at a special called meeting on June 29, 2015, rescinded the Kilgore ISD local optional homestead exemption (LOHE).

    - History:

        - In June of 1963, in an effort to help reduce local taxes for local Kilgore homeowners, Kilgore ISD implemented its first LOHE at 40% per $100 property valuation.

        - Over time, the state of Texas mandated a reduction in the amount school districts could award their local communities, thereby lowering Kilgore ISD's optional homeowner exemption down to 30% in 1985 and eventually 20% in 1988.

        - In 2014, Kilgore ISD reported awarding $64,164,540.00 in LOHE exemptions. Senate Bill 1, 84th Texas State Legislature, proposed to take effect in September, 2015 outlined that the approximate 80 school districts in Texas that were still awarding their local homeowners a LOHE would lose their ability to repeal their local optional homeowner exemptions.

    - Reasons given for removing the LOHE included:

        - Kilgore ISD's local economy had shown a 2% - 4% drop in each of the three (3) years preceding 2015,

        - The inability for Kilgore to repeal their long standing 20% LOHE after September, 2015 would legally bind the district into awarding their 20% LOHE through December, 2019, and

        - In an effort to aid Kilgore ISD in its effort to maintain local control and all "options for funding" available to the school district.

    - The District is currently the defendant in an ongoing lawsuit originally filed by three (3) local Kilgore taxpayers along with Texas Attorney General Intervention in relation to the removal of the LOHE, Axberg v. Kilgore ISD. The plaintiff's plea was originally filed on September 29, 2016 in the State of Texas, District Court of Gregg County. The lawsuit saw several actions in this past year. At the current time the Plaintiffs are seeking to Certify the Suit as Class-Action. That matter is currently in Gregg County Court of Law No. 2, Cause No. 2016-1850-CCL2. A hearing is scheduled on the plaintiff's motion of class action certification on February 25, 2022. The case is set to go to trial on September 19, 2022.

    - Even in light of the previous statement concerning potential liability for the Axberg v. Kilgore ISD lawsuit, the District continues to set aside estimated revenues generated as a result of the exemption removal in fund balance as a conservative, precautionary measure. As of August 31, 2021, the estimated total of this set-aside was $5,723,030 ($4,544,956 General Fund and $1,178,074 Debt Service). It is the District's understanding that the prohibition of removing the exemption ended at the end of the FYE August 31, 2020, so no plans have been made to set aside any further reserves. If you compare the reserve to the August 31, 2020 reserve you will note a decrease of $1,441,370 as it is our belief that the statute of limitations expired on the gain from the 2015-2016 school year.

- Federal, state and local revenue combined for general fund are expected to decrease from the 2020-2021 final amended budget, $2,793,594 or 7.27%. This decrease is a result of decreases in property values causing a decrease to property tax collections, enrollment decline, changes to Rusk County Education District tax revenue and a continued decline in interest revenue caused by historically low rates, and miscellaneous other minor local revenue sources seeing decreases due to the pandemic.

- The 2021-2022 general operating expenditure budget decreased from 2020-2021 revised levels, a decrease of $1,616,916, or 4.34%. This decrease was achieved even with staff salary increases for all groups of employees. The main factor in decreasing the expenditure budget is federal ESSER funds allowing for supplanting some portion of general fund expenditures.

- Within the 2021-2022 expenditure budget is an undefined capital needs budget of $2,342,335.

- The Board of Trustees and administrators continue their review of current and long-term capital needs.

    - The Board of Trustees called a bond election for November 2, 2021. On the ballot were two propositions; 1) Proposition A - $109 million for a new high school and renovations to Chandler Elementary School and 2) $4 million for renovations at R.E. St. John Memorial Stadium. The results of this election were to be canvased at a special meeting on November 15, 2021. Unofficial results show the bond election to be successful with an in-favor vote of 62.9% on Proposition A and 56.87% on Proposition B.

    - The election proposes to raise the debt service rate $0.2377 bringing our total debt rate to $0.49.

    - In addition to the stated purposes of the bond issue, the trustees are reviewing district capital needs with plans to complete these from current year budget and excess fund balance.

    -

- The 2021-20221 budget adopted for debt service reflects a surplus of $540,999. This surplus results from the Boards standing practice of keeping the debt service tax rate unchanged from year to year, equal to the rate approved by taxpayers starting in 2011-2012 as a result of the previous approved bond election. Excess proceeds are accumulated and used to pay off excess debt as early as possible.

- The 2021-2022 general fund budget was based on anticipated average daily attendance mimicking that from the 2020-2021 school year. Because of the COVID constraints during the 2020-2021 school year this approach was considered to be very conservative at the time.

- A discussion of the current budget can not avoid COVID-19. The pandemic has gone on longer than anyone could have originally expected. The pandemic is continuing to produce uncertainties and changes in both revenue and expenditures. Student enrollment is down slightly and the overall attendance rate is lower than projections used to create the 2021-2022 budget. Although the State of Texas has held districts harmless for drops in overall Average Daily Attendance in the past there are no current discussions of such for the 2021-2022 school year Staffing positions budgeted for in the 2021-2022 budget have gone unfilled due to a lack of hirable staff which we feel will produce budget savings which will help offset a portion of the potential revenue losses. The final pandemic challenge is one faced by the entire world, that of supply chain. Many of the products we need are hard to come by and when we are able to locate them, we do so at prices much higher than pre=pandemic levels. Our current plan is to continue to hold budget managers to their adopted allocations. Kilgore ISD is moving forward with our normal conservative approach. We do feel that our fund balance allows us some room for surviving short term down turns such as this.

- Unemployment rates for both Gregg and Rusk Counties have decreased in the past six months following large spikes resulting from effects of COVID-19. Prior to COVID rates had improved for three consecutive years. Unemployment rates in Gregg and Rusk County hit highs in May of 2020 at 12.9% and 10.9% respectively and have since lowered to current rates of 6.8% and 6.1%. These rates are still above pre-COVID levels of 3.3% and 3.1% in April of 2019.

- Sales tax numbers for the City of Kilgore in 2021 again showed a decrease from the prior year, down 8% from 2020 and 35% from 2019. The Kilgore City Sales tax number is the lowest such revenue since 2005. It is believed that the majority of this decrease is related to two factors: COVID 19 and the slump that continues in the Oil and Gas Industry. It is hard to determine which of these factors has weighed greater on these numbers. The Kilgore and East Texas economy once very reliant on the oil and gas industry continues to make strides attempting to diversify into other industries.

The District's overall tax rate for 2021-2022 was lowered by $0.002 from 2020-2021 to $1.2236, $0.9634 maintenance and operations plus $0.2592 debt service. The rate is declining for the third year in a row, with no previous movement to these changes since 2007-2008. These declines are a result of changes created by HB3.

Kilgore ISD, as mentioned previously, remains very conservative in its budget approach. The District seeks a balance in the budget between committing resources to salary increases and other continuing expenditures and one-time commitments that can be removed easily if sustainability of these resources is not possible. We optimistically watch indicators in an attempt to maintain the best balance in the budget possible for our students, staff and community

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer at Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2021

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 23,737,650
1120	Current Investments	5,974,235
1220	Property Taxes - Delinquent	2,067,574
1230	Allowance for Uncollectible Taxes	(650,840)
1240	Due from Other Governments	3,459,303
1290	Other Receivables, Net	404,171
1300	Inventories	102,158
	Capital Assets:	
1510	Land	3,132,484
1520	Buildings, Net	59,123,200
1530	Furniture and Equipment, Net	2,337,801
1540	Other Capital Assets, Net	470,649
1800	Restricted Assets	1,420,494
1000	Total Assets	101,578,879
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred Outflow Related to TRS Pension	2,919,358
1706	Deferred Outflow Related to TRS OPEB	2,113,865
1700	Total Deferred Outflows of Resources	5,033,223
	LIABILITIES	
2110	Accounts Payable	295,118
2150	Payroll Deductions and Withholdings	1,202
2160	Accrued Wages Payable	1,552,600
2180	Due to Other Governments	202,125
2300	Unearned Revenue	1,322,714
	Noncurrent Liabilities:	
2501	Due Within One Year: Loans, Note, Leases, etc.	1,627,786
	Due in More than One Year:	
2502	Bonds, Notes, Leases, etc.	38,701,132
2540	Net Pension Liability (District's Share)	7,902,304
2545	Net OPEB Liability (District's Share)	10,560,312
2000	Total Liabilities	62,165,293
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflow Related to TRS Pension	1,220,071
2606	Deferred Inflow Related to TRS OPEB	7,732,855
2600	Total Deferred Inflows of Resources	8,952,926
	NET POSITION	
3200	Net Investment in Capital Assets	24,793,002
	Restricted:	
3820	Restricted for Federal and State Programs	709,894
3850	Restricted for Debt Service	4,554,361
3900	Unrestricted	5,436,626
3000	Total Net Position	$ 35,493,883

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

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes		1	3	4	6
			Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
	Primary Government:				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 22,658,581	$ 24,913	$ 5,057,879	$ (17,575,789)
12	Instructional Resources and Media Services	553,549	-	54,786	(498,763)
13	Curriculum and Instructional Staff Development	1,007,965	-	146,698	(861,267)
21	Instructional Leadership	344,163	-	35,081	(309,082)
23	School Leadership	2,454,068	-	202,759	(2,251,309)
31	Guidance, Counseling, and Evaluation Services	1,859,923	-	364,019	(1,495,904)
32	Social Work Services	21,962	-	1,450	(20,512)
33	Health Services	336,162	-	32,007	(304,155)
34	Student (Pupil) Transportation	1,503,274	-	96,727	(1,406,547)
35	Food Services	2,106,897	122,209	1,814,789	(169,899)
36	Extracurricular Activities	1,696,048	281,984	70,529	(1,343,535)
41	General Administration	1,554,904	-	105,414	(1,449,490)
51	Facilities Maintenance and Operations	4,176,424	1,900	101,321	(4,073,203)
52	Security and Monitoring Services	149,685	-	16,961	(132,724)
53	Data Processing Services	513,144	-	33,668	(479,476)
61	Community Services	23,942	-	7,296	(16,646)
72	Debt Service - Interest on Long-Term Debt	824,295	-	236,526	(587,769)
73	Debt Service - Bond Issuance Cost and Fees	347,997	-	-	(347,997)
99	Other Intergovernmental Charges	326,823	-	-	(326,823)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 42,459,806	$ 431,006	$ 8,377,910	(33,650,890)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	16,484,530
DT	Property Taxes, Levied for Debt Service	4,485,816
SF	State Aid - Formula Grants	18,315,613
GC	Grants and Contributions not Restricted	469,839
IE	Investment Earnings	90,446
MI	Miscellaneous Local and Intermediate Revenue	816,902
TR	Total General Revenues	40,663,146
CN	Change in Net Position	7,012,256
NB	Net Position - Beginning	28,481,627
NE	Net Position - Ending	$ 35,493,883

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

KILGORE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2021

Data Control Codes		10 General Fund	ESSER II Fund	50 Debt Service Fund
	ASSETS			
1110	Cash and Cash Equivalents	$ 19,985,696	$ -	$ 2,871,210
1120	Investments - Current	5,973,936	-	299
1220	Property Taxes - Delinquent	1,726,929	-	340,645
1230	Allowance for Uncollectible Taxes	(580,437)	-	(70,403)
1240	Due from Other Governments	1,225,952	1,077,107	37,947
1260	Due from Other Funds	1,933,301	-	2,343
1290	Other Receivables	394,529	-	9,612
1300	Inventories	-	-	-
1800	Restricted Assets	-	-	1,420,494
1000	Total Assets	$ 30,659,906	$ 1,077,107	$ 4,612,147
	LIABILITIES			
2110	Accounts Payable	$ 273,734	$ -	$ -
2150	Payroll Deductions and Withholdings Payable	1,202	-	-
2160	Accrued Wages Payable	1,359,701	-	-
2170	Due to Other Funds	127,747	1,077,107	-
2180	Due to Other Governments	-	-	-
2300	Unearned Revenue	1,232,678	-	-
2000	Total Liabilities	2,995,062	1,077,107	-
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	1,146,492	-	270,242
2600	Total Deferred Inflows of Resources	1,146,492	-	270,242
	FUND BALANCES			
	Nonspendable Fund Balance:			
3410	Inventories	-	-	-
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	-	-
3480	Retirement of Long-Term Debt	-	-	4,341,905
	Committed Fund Balance:			
3510	Construction	6,000,000	-	-
3530	Capital Expenditures for Equipment	800,000	-	-
3545	Other Committed Fund Balance	914,014	-	-
	Assigned Fund Balance:			
3560	Claims and Judgments	4,544,956	-	-
3600	Unassigned Fund Balance	14,259,382	-	-
3000	Total Fund Balances	26,518,352	-	4,341,905
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 30,659,906	$ 1,077,107	$ 4,612,147

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 880,744	$ 23,737,650
-	5,974,235
-	2,067,574
-	(650,840)
1,118,297	3,459,303
125,495	2,061,139
30	404,171
102,158	102,158
-	1,420,494
$ 2,226,724	$ 38,575,884
$ 21,384	$ 295,118
-	1,202
192,899	1,552,600
856,285	2,061,139
202,125	202,125
90,036	1,322,714
1,362,729	5,434,898
-	1,416,734
-	1,416,734
102,158	102,158
607,736	607,736
-	4,341,905
-	6,000,000
-	800,000
154,101	1,068,115
-	4,544,956
-	14,259,382
863,995	31,724,252
$ 2,226,724	$ 38,575,884

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

	Total Fund Balances - Governmental Funds	$	31,724,252
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is $105,218,255 and the accumulated depreciation is $40,154,121. The effect of including the capital assets (net of depreciation) in the governmental activities is to increase net position. (See Note 6.)		65,064,134
2	Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and, therefore, are not reported as liabilities in the governmental funds. The effect of these long-term liabilities is a decrease to net position. (See Note 7.)		(40,328,918)
3	Recognizing unearned revenue (property taxes) as revenue in the government-wide statements to convert from modified accrual basis of accounting to the accrual basis of accounting. The net effect is an increase to net position.		1,416,734
4	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of $7,902,304, a deferred resource inflow related to TRS in the amount of $1,220,071 and a deferred resource outflow related to TRS in the amount of $2,919,358. The net effect of these pension related items is a decrease to net position. (See Note 8.)		(6,203,017)
5	Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75 in the amount of $10,560,312, a deferred inflow related to TRS OPEB in the amount of $7,732,855, and a deferred resource outflow related to TRS OPEB in the amount of $2,113,865. The net effect of these OPEB related items is a decrease to net position. (See Note 9.)		(16,179,302)
19	**Net Position of Governmental Activities**	$	35,493,883

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

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes		10 General Fund	ESSER II Fund	50 Debt Service Fund
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 17,164,588	$ -	$ 4,551,908
5800	State Program Revenues	20,224,402	-	96,255
5900	Federal Program Revenues	317,270	1,077,107	140,271
5020	Total Revenues	37,706,260	1,077,107	4,788,434
	EXPENDITURES:			
	Current:			
0011	Instruction	17,316,867	1,077,107	-
0012	Instructional Resources and Media Services	494,324	-	-
0013	Curriculum and Instructional Staff Development	857,851	-	-
0021	Instructional Leadership	306,370	-	-
0023	School Leadership	2,203,240	-	-
0031	Guidance, Counseling, and Evaluation Services	1,463,928	-	-
0032	Social Work Services	21,962	-	-
0033	Health Services	295,693	-	-
0034	Student (Pupil) Transportation	1,264,512	-	-
0035	Food Services	6,427	-	-
0036	Extracurricular Activities	1,350,278	-	-
0041	General Administration	1,458,819	-	-
0051	Facilities Maintenance and Operations	4,167,619	-	-
0052	Security and Monitoring Services	133,287	-	-
0053	Data Processing Services	468,293	-	-
0061	Community Services	17,372	-	-
	Debt Service:			
0071	Principal on Long-Term Debt	-	-	2,970,000
0072	Interest on Long-Term Debt	-	-	1,127,009
0073	Bond Issuance Cost and Fees	-	-	347,997
	Intergovernmental:			
0099	Other Intergovernmental Charges	326,823	-	-
6030	Total Expenditures	32,153,665	1,077,107	4,445,006
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	5,552,595	-	343,428
	OTHER FINANCING SOURCES (USES):			
7901	Refunding Bonds Issued	-	-	28,045,000
7916	Premium or Discount on Issuance of Bonds	-	-	6,138,578
7949	Other Resources	485,672	-	-
8911	Transfers Out (Use)	-	-	-
8940	Payment to Bond Refunding Escrow Agent (Use)	-	-	(34,329,577)
7080	Total Other Financing Sources (Uses)	485,672	-	(145,999)
1200	Net Change in Fund Balances	6,038,267	-	197,429
0100	Fund Balance - September 1 (Beginning)	20,480,085	-	4,144,476
3000	Fund Balance - August 31 (Ending)	$ 26,518,352	$ -	$ 4,341,905

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 343,288	$ 22,059,784
267,881	20,588,538
4,591,473	6,126,121
5,202,642	48,774,443
2,527,094	20,921,068
18,777	513,101
90,958	948,809
17,213	323,583
88,757	2,291,997
252,158	1,716,086
-	21,962
9,442	305,135
21,468	1,285,980
1,898,258	1,904,685
106,482	1,456,760
17,681	1,476,500
26,851	4,194,470
11,505	144,792
11,463	479,756
6,570	23,942
-	2,970,000
-	1,127,009
-	347,997
-	326,823
5,104,677	42,780,455
97,965	5,993,988
-	28,045,000
-	6,138,578
-	485,672
(32,422)	(32,422)
-	(34,329,577)
(32,422)	307,251
65,543	6,301,239
798,452	25,423,013
$ 863,995	$ 31,724,252

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2021

Total Net Change in Fund Balances - Governmental Funds	$	6,301,239
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing capital outlays is to increase net position. (See Note 6.)		243,640
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (See Note 6.)		(2,280,553)
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of premiums when debt is first issued, whereas this amount is deferred and amortized in the statement of activities. The net effect is to increase net position. (See Note 7.)		3,418,713
Changes in the District's proportionate share of the net pension liability, deferred outflows or resources, and deferred inflows of resources related to the Teacher Retirement System of Texas for the current year are not reported in governmental funds but are reported in the Statement of Activities. The net effect of all these changes is a decrease to net position.		(680,308)
Changes in the District's proportionate share of the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to the Texas Public Retired Employees Group Insurance Program (TRS-Care) for the current year are not reported in governmental funds but are reported in the Statement of Activities. The net effect of all these changes is a increase to net position.		242,789
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating inter-fund transactions, recognizing the net effect of retirement of capital assets, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(233,264)
Change in Net Position of Governmental Activities	$	7,012,256

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

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2021

	Private Purpose Trust Fund	Custodial Fund
ASSETS		
Cash and Cash Equivalents	$ -	$ 151,217
Restricted Assets	32,460	-
Total Assets	32,460	$ 151,217
NET POSITION		
Restricted for Scholarships	32,460	-
Restricted for Student Groups	-	151,217
Total Net Position	$ 32,460	$ 151,217

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

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2021

	Private Purpose Trust Fund	Custodial Fund
ADDITIONS:		
Contributions to Student Groups	$ -	$ 7,626
Miscellaneous Revenue - Student Activities	-	63,700
Enterprising Services Revenue	-	177,376
Earnings from Temporary Deposits	38	-
Miscellaneous Additions	32,422	-
Total Additions	32,460	248,702
DEDUCTIONS:		
Other Deductions	-	227,670
Total Deductions	-	227,670
Change in Fiduciary Net Position	32,460	21,032
Total Net Position - September 1 (Beginning)	-	-
Prior Period Adjustment	-	130,185
Total Net Position - August 31 (Ending)	$ 32,460	$ 151,217

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Kilgore 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. The District prepares its basic financial statements in conformity with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69, as amended by Statement on Auditing Standards No.s 91 and 93* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the Resource Guide) and the requirements of contracts and grants of agencies from which it receives funds.

Reporting entity – The Board of Trustees (the "Board"), a seven member group, has fiscal responsibility over all activities related to public elementary and secondary education within the jurisdiction of the District. The public elects the Board that corporately has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the Texas State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 61, "*The Financial Reporting Entity": Omnibus – an amendment by GASB Statements No. 14 and 34*. There are no component units or entities for which the District is considered financially accountable included within the reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

New GASB Pronouncements - GASB has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 84, *Fiduciary Activities*, is effective for periods beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities for accounting and reporting purposes. The implementation of this statement has resulted in a presentation change of the financial statement by requiring custodial funds to report the difference of assets and liabilities as net position on the statement of fiduciary net position and additions and deductions on the statement of changes in fiduciary net position. For prior period adjustment, see Note 18.

The District's basic financial statements consist of government-wide statements and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements – The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District as a whole. For the most part, the effect of interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include 1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds, which are presented in separate columns. Nonmajor governmental funds are aggregated and presented in a single column.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. The District reports the following major governmental fund types:

- The *general fund* is the District's primary operating fund. This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in another fund are included here.

- Elementary and Secondary School Emergency Relief Fund II (ESSER II) of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act – This major special revenue fund accounts for federal stimulus ESSER II funds granted to local educational agencies (LEAs) through the CRRSA Act to support an LEA's ability to operate, instruct its students, address learning loss, prepare schools for reopening, test, repair, and upgrade projects to improve air quality in school buildings during the coronavirus pandemic.

- The *debt service fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

- The nonmajor governmental funds of the District account for grants and other resources of the District whose uses are restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service and campus activity funds, funds are rolled over from year to year for use in the program.

Fiduciary Funds

- This *private purpose trust fund* accounts for donations to scholarship funds received by the District for awards to current and former students for post-secondary education purposes.

- The *custodial fund* accounts for the resources raised by student groups and various other campus organizations received by the District in a custodial capacity that do not constitute District property. However, the District's role is considered to be substantive because in the absence of an approved policy, the faculty advisor has the ability to reject, modify, or approve how the resources are being spent.

Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. All assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the District are included in the statement of net position.

Fund Financial Statements - Governmental fund financial statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources, and fund balances are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary fund financial statements. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized. Tax revenues are considered available when collected.

Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there is an enforceable legal claim as of January 1, but which were levied to finance fiscal year 2021 operations, are recorded as deferred inflows of resources in the fund financial statements. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue in both the government-wide and fund financial statements.

In governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred inflows of resources.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on the decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

Deposits and Investments

Under Texas state law, a bank serving as the school depository must have a bond, or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, in an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

Investments in local government investment pools are valued and recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. Investments with maturities of 12 months or less at the date of purchase are held at amortized cost and net asset value (NAV). Investments with maturities exceeding 12 months at the date of purchase are stated at fair value based on quoted market prices at year-end date.

The District categorizes fair value measurements of its investments based on the hierarchy established by GAAP. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology are quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. At August 31, 2021, the District had no investments subject to fair value measurement.

Property Taxes

The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the property tax roll, upon which the levy for the 2020-2021 fiscal year was based, was $1.7 billion.

The tax rates assessed for the year ended August 31, 2021, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt, were $.9664 and $.2592 per $100 valuation, respectively, for a total of $1.2256 per $100 valuation.

Current tax collections for the year ended August 31, 2021 were 98% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. The property taxes receivable allowance is equal to approximately 30% of outstanding property taxes receivable at August 31, 2021. A significant portion of delinquent taxes outstanding at any fiscal year end is generally not collected in the ensuing fiscal year. Uncollectible personal property taxes are periodically reviewed and written off. Under Sec. 3305 of the Texas Property Code, the District can cancel and remove from the delinquent tax roll, tax on real property that has been delinquent for more than 20 years or tax on personal property that has been delinquent for more than 10 years if there is no pending litigation concerning the delinquent taxes at the time of cancellation and removal.

Inter-fund Assets/Liabilities

In the fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "Due from/(to) other funds". Inter-fund balances within governmental activities are eliminated on the government-wide statement of net assets. See Note 5 for additional discussion of inter-fund receivables and payables.

Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. The District defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated cost if purchased or self-constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives: (See Note 6.)

Assets	Years
Infrastructure	30
Buildings	50
Buildings and improvements	20
Office equipment	3-15
Computer equipment	2-15
Vehicles	2-15

Prepayments (i.e., Deferred Expenditures/Expenses)

Certain payments to vendors reflect costs applicable to the next fiscal period and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are accounted for using the consumption method and are recognized as expenditures/expenses proportionately over the periods in which the services are provided.

Inventories

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Governmental fund inventories are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position and balance sheet as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflow of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred outflow of resources for OPEB – Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan.

A *deferred inflow of resources* in an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflow of resources for pension – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

- Deferred inflow of resources for OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remailing service life of all members.

Long-Term Obligations

The District's long-term obligations consist of bonded indebtedness and compensated absences. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest rate 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 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 sources while discounts 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.

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for compensated absences are accounted for in the general fund.

Compensated Absences

District employees earning vacation leave are permitted to accumulate up to five unused days to be used in the next fiscal year. Such days do not vest. Accordingly, no liability has been recorded in the accompanying financial statements.

District employees are entitled to sick leave based on category/class of employment. Sick leave accumulates but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

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.

Other Post-Employment Benefits

The fiduciary net position of the 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.

Fund Balance

Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. The government fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective government funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. (Inventories and Prepaid Items are considered nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.)

- *Restricted* – includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed* – includes amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution or ordinance. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed 100 percent of Fund 461 Campus Activity Funds' fund balance.

- *Assigned* – includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Superintendent or Chief Financial Officer through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the *general fund*.

- *Unassigned* – includes the residual fund balance for amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the *general fund*. The *Unassigned* classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of *Assigned* fund balance amounts.

The Board has adopted a minimum fund balance policy for the *general fund* requiring the District to target a yearly unassigned fund balance between 17% (60 days) and 25% (90 days) of total operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The classifications used in the government-wide financial statements are as follows:

- *Net position invested in capital assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

- *Restricted net position* – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

- *Unrestricted net position* – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgetary Data

The Board adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Child Nutrition Program (which is included in the Nonmajor Governmental Funds). The District compares the final amended budget to actual revenues and expenditures. The Budgetary Comparison Schedules appear in Exhibits E-1, F-2, and F-3.

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

a) Prior to August 20, the District prepares an operating budget for the next succeeding fiscal year beginning September 1. The budget includes proposed expenditures and the means of financing them.

b) A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten day's public notice of the meeting must be given.

c) 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 are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year end.

d) 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.

e) 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Administration to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation and available school revenue a school district earns for a year, can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31 will change and those changes could be material.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

3. DEPOSITS AND INVESTMENTS

A summary of the District's cash and investments at August 31, 2021 is shown below:

	Cash and Deposits	Investment Pools	BOK Financial	Total Investments	Total Cash & Investments
Governmental funds:					
General fund	$ 19,985,696	$ 5,973,936	$ -	$ 5,973,936	$ 25,959,632
ESSER II fund	-	-	-	-	-
Debt service fund	2,871,210	-	299	299	2,871,509
Nonmajor governmental funds	880,744	-	-	-	880,744
Total governmental funds	23,737,650	5,973,936	299	5,974,235	29,711,885
Fiduciary funds	151,217	32,460	-	32,460	183,677
Total cash and investments	$ 23,888,867	$ 6,006,396	$ 299	$ 6,006,695	$ 29,895,562

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

At August 31, 2021, the carrying amount of the District's deposits (cash and certificate of deposits) was $23,888,867 and the bank balance was $24,629,672. The District's cash deposits at August 31, 2021 were entirely covered by FDIC insurance, by pledged collateral held by the depository bank's agent bank in the District's.

The Public Funds Investment Act (Act) 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, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. 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) securities lending programs, (6) repurchase agreements, (7) bankers acceptances, (8) mutual funds, (9) investment pools, and (10) guaranteed investment contracts.

As of August 31, 2021, the District had the following investments:

			Fair Value Measurements Using:				
Investment Type:	**Rating**	**Value at August 31, 2021**	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Percent of Portfolio**	**WAM (Days/Years)**
Cash in Bank		$ 23,888,867				80%	
Investments measured at amortized costs:							
TexPool	AAAm	525,765				2%	< 365 days
TexasCLASS	AAA	2,285,365				8%	< 365 days
Lone Star	AAAf	3,195,266				10%	< 365 days
Investments measured at cost not subject to level reporting:							
BOK Short-term Cash Fund I		299				0%	< 365 days
Investments - subtotal		6,006,695	-	-	-		
Total cash & investments		$ 29,895,562	$ -	$ -	$ -	100%	

Texas Local Government Investment Pool (TexPool), Texas Cooperative Liquid Assets Securities System (TexasCLASS), and Lone Star Investment Pool (LoneStar) are local government investment "pools" organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in, TexPool, TexasCLASS, and LoneStar are reported at amortized cost. Deposits and withdrawals can be made on any business day of the week. The pools have a redemption notice of one day, which may be redeemed daily. The pools may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or a national state of emergency that affects the pools liquidity. There are no limits on the number of accounts a participant can have or the number of transactions. The District has no unfunded commitments related to the pools.

The District's management believes that it has complied with the requirements of the Act and with local policies.

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

1) **Credit Risk**

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2021, the District's investments in TexPool, TexasClass and LoneStar were rated AAAm, AAA, and AAAf, respectively, by Standard and Poor's.

2) Custodial Credit Risk

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

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

3) Concentration of Credit Risk

The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer. At year end, the District was not exposed to concentration of credit risk.

4) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within the legal limits. The weighted average maturity for the District's investment in external investment pools is less than 60 days. In addition, the District shall not directly invest in an individual security maturing more than twelve months from the time of purchase.

The District's sinking funds at August 31, 2021 were invested in the following:

Investment Type:	Value at August 31, 2021	Fair Value Measurement Using: (Level 1)	(Level 2)	(Level 3)	Maturity
Investment measured at amortized cost:					
BOK Short-term Cash Fund I	$ 1,420,494	-	-	-	N/A
Total Restricted Assets	$ 1,420,494				

4. RECEIVABLES

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

	General Fund	ESSER II Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	$ 1,726,929	$ -	$ 340,645	$ -	$ 2,067,574
Due from other governments-state	1,225,952	-	37,947	-	1,263,899
Due from other governments-federal	-	1,077,107	-	1,118,297	2,195,404
Due from other governments-other	-	-	-	-	-
Subtotal - due from other governments	2,952,881	1,077,107	378,592	1,118,297	5,526,877
Other receivables	394,529	-	9,612	30	404,171
Gross receivables	3,347,410	1,077,107	388,204	1,118,327	5,931,048
Less: allowance for uncollectibles	(580,437)	-	(70,403)	-	(650,840)
Net total receivables	$ 2,766,973	$ 1,077,107	$ 317,801	$ 1,118,327	$ 5,280,208

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2021, are summarized above. All federal grants shown above are passed through the TEA and are reported in the financial statements as Due from Other Governments.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or 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 revenues reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Delinquent property taxes (General Fund)	$ 1,146,492	$ -	$ 1,146,492
Delinquent property taxes (Debt Service Fund)	270,272	-	270,272
Funds received prior to meeting all eligibility requirements:			
State allotments (General Fund)	-	1,232,678	1,232,678
(Nonmajor Govermental Funds)	-	90,036	90,036
Total unearned revenue	$ 1,416,764	$ 1,322,714	$ 2,739,478

5. INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Inter-fund balances consist of short-term lending/borrowing arrangements between two or more governmental funds. The composition of inter-fund balances as of August 31, 2021, is as follows:

Fund	Receivable	Payable
General Fund:		
Nonmajor Governmental Funds	$ 1,933,392	$ 125,404
Debt Service Fun	-	2,343
Debt Service Fund:		
General Fund	$ 2,343	$ -
Nonmajor Governmental Funds:		
General Fund	$ 125,404	$ 1,933,392
Nonmajor Governmental Funds	-	-
	$ 2,061,139	$ 2,061,139

District activities in the Nonmajor Governmental Funds (Special Revenue Funds) include expenditures paid from a centralized-pooled operating bank account maintained in the General Fund. Since all cash transactions flow through this account, each fund carries a receivable/payable balance with the General Fund. All balances will be repaid within one year.

Interfund transfers in the fund financial statements at August 31, 2021, consisted of the following:

Transfers from	Transfers to	Amount
Nonmajor Governmental Fund	Private-purpose Trust Fund	$ 32,422
		$ 32,422

The District transferred $32,422 from a nonmajor governmental fund to a private-purpose trust fund for scholarship activity, consistent with GASB No. 84 presentation.

6. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2021 is as follows:

Governmental activities:	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	$ 3,132,484	$ -	$ -	$ -	$ 3,132,484
Construction in progress	-	-	-	-	-
Total Capital Assets, not depreciated	3,132,484	-	-	-	3,132,484
Capital assets, being depreciated:					
Buildings and improvements	86,688,335	194,225	-	-	86,882,560
Furniture and equipment	10,621,717	49,415	-	-	10,671,132
Vehicles	4,532,079	-	-	-	4,532,079
Total Capital Assets, being depreciated	101,842,131	243,640	-	-	102,085,771
Less accumulated depreciation for:					
Buildings and improvements	(25,957,076)	(1,802,284)	-	-	(27,759,360)
Furniture and equipment	(7,997,470)	(335,861)	-	-	(8,333,331)
Vehicles	(3,919,022)	(142,408)	-	-	(4,061,430)
Total accumulated depreciation	(37,873,568)	(2,280,553)	-	-	(40,154,121)
Capital assets, net	$ 67,101,047	$ (2,036,913)	$ -	$ -	$ 65,064,134

Depreciation expense was charged to governmental functions as follows:

11	Instruction	$ 1,176,280
12	Instructional resources and media services	28,206
13	Curriculum and instructional staff development	38,088
21	Instructional leadership	11,753
23	School leadership	105,692
31	Guidance, counseling, & evaluation services	99,700
33	Health services	22,200
34	Student (pupil) transportation	196,226
35	Food services	179,167
36	Extracurricular activities	185,798
41	General administration	43,092
51	Facilities maintenance and operations	164,897
52	Security and monitoring services	4,893
53	Data processing services	24,561
	Total depreciation expense - governmental activities	$ 2,280,553

7. LONG-TERM LIABILITIES

General Obligation Bonds

The District issues general obligation bonds for governmental activities to provide resources for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Principal and interest requirements are payable solely from future revenues of the debt service fund which consists primarily of property taxes collected by the District and interest earnings. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures. The District has never defaulted on any principal or interest payment.

There are a number of limitations and restrictions contained in the general obligation debt indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2021.

Bonded debt as of August 31, 2021 is as follows:

Description	Interest Rate Payable	Maturity Date	Original Issue	Outstanding
Unlimited tax qualified school construction bonds, series 2012	3.50%	02/15/27	$ 4,250,000	$ 4,250,000
Unlimited tax school building bonds, series 2012	1.50%-1.70%	02/15/26	9,465,000	3,260,000
Unlimited tax refunding bonds, series 2020	4.00%-5.00%	02/15/37	28,045,000	26,845,000
			$ 41,760,000	$ 34,355,000

In November 2020, the District issued $28,045,000 in Unlimited Tax Refunding Bonds, Series 2020 to refund $33,600,000 of the outstanding Unlimited Tax School Building Bonds, Series 2011. The bonds were issued at a net premium of $6,138,678 and issuance costs of $344,075. The Series 2020 bonds bear interest from 4.00% to 5.00% and are due in annual installments ranging from $885,000 to $2,480,000 through February 15, 2037. As a result of this refunding, the District reduced its total debt service requirements by $9,156,921 and realized a present value savings of $7,988,811.

The 2012 QSCB requires annual payments (approximately $470,000) to a sinking fund held at BOK Financial, NA dba Bank of Texas which will be used to pay the principal on the bonds when they mature in fiscal year 2027 (See Note II. A).

The following is a summary of changes in the District's total governmental long-term liabilities for the year ended August 31, 2021:

Bonds payable:	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Unlimited tax schoolhouse building bonds, series 2011	$ 34,695,000	$ -	$ (34,695,000)	$ -	$ -
Unlimited tax qualified school construction bonds, series 2012	4,250,000	-	-	4,250,000	-
Unlimited tax school building bonds, series 2012	3,935,000	-	(675,000)	3,260,000	685,000
Unlimited tax refunding bonds, series 2020	-	28,045,000	(1,200,000)	26,845,000	885,000
	42,880,000	28,045,000	(36,570,000)	34,355,000	1,570,000
Deferred amounts:					
Accrued interest	77,129	-	(19,343)	57,786	57,786
Premium on issuance of bonds	791,973	6,138,578	(1,014,419)	5,916,132	-
Discount on issuance of bonds	(1,471)	-	1,471	-	-
Total bonds payable	43,747,631	34,183,578	(37,602,291)	40,328,918	1,627,786
Other liabilities:					
Net pension liability	7,912,777		(10,473)	7,902,304	-
Net OPEB liability	12,981,373	-	(2,421,061)	10,560,312	-
Total other liabilities	20,894,150	-	(2,431,534)	18,462,616	-
Governmental activities long-term liabilities	$ 64,641,781	$ 34,183,578	$ (40,033,825)	$ 58,791,534	$ 1,627,786

Debt service requirements to maturity are as follows:

Year Ended August 31,	General Obligation Bonds Principal	Interest	Total Requirements
2021	$ 1,570,000	$ 1,359,592	$ 2,929,592
2022	1,625,000	1,303,780	2,928,780
2023	1,680,000	1,245,480	2,925,480
2024	1,740,000	1,184,385	2,924,385
2025	1,545,000	1,122,170	2,667,170
2026-2030	12,680,000	3,833,650	16,513,650
2031-2035	11,035,000	1,634,700	12,669,700
2046-2049	2,480,000	49,600	2,529,600
	$ 34,355,000	$ 11,733,357	$ 46,088,357

Qualified School Construction Bonds

In February 2009, as part of the American Recovery and Reinvestment Act of 2009, Congress added Sections 54F and 6431 to the Internal Revenue Code of 1986, which permit state and local governments to obtain certain tax advantages when issuing taxable obligations that meet certain requirements of the Code and the related Treasury regulations. Such obligations are referred to as Build America Bonds.

In March 2012, the District issued Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012 Bonds in the amount of $4,250,000 under the program. Under this program, the District receives a subsidy equal to the amount of interest payable on the bonds. The subsidy payment received by the District will not be pledged as security for the payment of the Series 2012 Bonds and no holder of the Series 2012 Bonds will be entitled to a tax credit or any subsidy payment with respect to the Series 2012 Bonds. The District intends to use the subsidy payments for any lawful purpose, which may include payment of principal and interest on the Series 2012 Bonds. For fiscal year ended August 31, 2021, the District received $140,271 in such subsidies. The amount received was recorded as federal revenue in the Debt Service Fund to offset its debt service requirement.

Defeased Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2021, no previously refunded debt outstanding was considered defeased.

Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated that it has no arbitrage liability as of August 31, 2021.

8. DEFINED BENEFIT PENSION PLAN

Plan Description. The District participates in the TRS, a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The pension plan is administered by 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 plan 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 plan'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 pension plan.

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

Components of the net pension liability of the pension plan are as of August 31, 2020 are as follows:

Net Pension Liability	Total
Total Pension Liability	$ 218,974,205,084
Less: Plan Fiduciary Net Position	(165,416,245,243)
Net Pension Liability	$ 53,557,959,841
Net Position as percentage of Total Pension Liability	75.54%

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. (Members who are grandfathered use the three highest annual salaries). 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 or exceeds 80 years. Early retirement is at age 55 with 5 years of service credit or any age below 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 above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by the Plan's actuary.

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

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 pension plan during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2020	2021
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	7.5%
Employers	7.5%	7.5%
Employer Contributions		$ 608,878
Member Contributions		$ 1,770,779
NECE On-Behalf Contributions		$ 1,474,279

Contributors to the pension 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). The State's on-behalf contribution is recorded as revenues and expenditures/expenses in the financial statements.

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the pension plan an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension plan during that fiscal year reduced by the amounts described below which are paid by the employers. Employers, including public schools, are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- 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 additional surcharges an employer is subject to:

- All public schools, charter schools, and regional educational service centers must contribute 1.5% of the member's salary beginning in fiscal year 2020, gradually increasing to 2% in fiscal year 2025.
- 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.

Actuarial Assumptions. The total pension plan liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate* as of August 2020	2.33*
Last year ending August 31 in Projection Period (100 years)	2119
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc Post-employment Benefit Changes	None

*Source: Fixed Income market data/yield curve/data municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2019. For a full description of these assumptions please see the actuarial valuation report dated November 14, 2019.

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

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

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

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2020 are summarized below:

Asset Class	Target Allocation[1]	Long-Term Expected Arithmetic Real Rate of Return[2]	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	3.9%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.9%
Emerging Markets	9.0%	5.6%	0.8%
Private Equity	14.0%	6.7%	1.4%
Stable Value			
Government Bonds	16.0%	-0.7%	-0.1%
Stable Value Hedge Funds	5.0%	1.9%	0.1%
Real Return			
Real Estate	15.0%	4.6%	1.0%
Energy, Natural Resources and Infrastructure	6.0%	6.0%	0.4%
Risk Parity			
Risk Parity	8.0%	3.0%	0.30%
Leverage			
Cash	2.0%	-1.5%	0.0%
Asset Allocation Leverage	-6.0%	-1.3%	0.1%
Inflation Expectation			2.0%
Volatility Drag[3]			-0.7%
Total	100%		7.33%

[1] Target allocations are based on the FY2020 policy model.
[2] Capital Market Assumptions come from Aon Hewitt (as of 08/31/2020)
[3] The volatility drag results from the conversion between arithmetic and geometric mean returns.

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

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability	$ 12,185,211	$ 7,902,304	$ 4,422,536

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2021, the District reported a net pension liability of 7,902,304 for its proportionate share of the TRS' 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	$ 7,902,304
State's proportionate share that is associated with the District	19,136,930
Total	$ 27,039,234

The net pension liability was measured as of August 31, 2019 and rolled forward to August 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 through August 31, 2020.

For the fiscal years ended August 31, 2021 and 2020, the District's proportion of the collective Net Pension Liability was as follows:

2021	2020	
Measurement Year 8/31/2020	Measurement Year 8/31/2019	Increase/(Decrease)
0.0147546769%	0.0152218187%	-0.0004671418%

Changes Since the Prior Actuarial Valuation.

There were no changes in assumptions since the prior measurement date.

For the year ended August 31, 2021, the District recognized pension expense of $3,590,934 and revenue of $2,301,748 for support provided by the State in the government-wide financial statements.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 14,429	$ 220,532
Changes in Actuarial Assumptions	1,833,616	779,641
Difference Between Projected and Actual Investment Earnings	159,975	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	302,460	219,898
Contributions Paid to TRS Subsequent to the Measurement Date (Calculated by District)	608,878	-
Total	$ 2,919,358	$ 1,220,071

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	$ 353,783
2023	388,790
2024	374,750
2025	96,606
2026	(112,105)
Thereafter	(11,415)
	$ 1,090,409

9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN (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 benefit OPEB plan with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. 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. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2020 are as follows:

Net OPEB Liability	
Total OPEB Liability	$ 40,010,833,815
Less: Plan Fiduciary Net Position	(1,996,317,932)
Net OPEB Liability	$ 38,014,515,883
Net Position as percentage of Total OPEB Liability	4.99%

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

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

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

TRS-CARE Monthly Premium Rates		
	Medicare	**Non-Medicare**
Retiree*	$ 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 .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than .25% or not more than .75% of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

	Contribution Rates		
	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		$	202,308
Member Contributions		$	149,503
NECE On-Behalf Contributions		$	283,724

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether 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 $230.8 million in fiscal year 2020 to maintain premiums and benefit levels in the 2020-2021 biennium.

The State's on-behalf contribution is recorded as revenues and expenditures/expenses in the financial statements.

Actuarial Assumptions. The actuarial valuation was performed as of August 31, 2019. Updated procedures were used to roll forward the Total OPEB Liability to August 31, 2020.

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

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2019 TRS pension actuarial valuation that was rolled forward to August 31, 2020:

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

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

Additional Actuarial Methods and Assumptions:

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

*Includes inflation at 2.30%

Discount Rate. A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of .30% 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 used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2020 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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%)	Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
District's proportionate share of the net OPEB liability	$ 12,672,350	$ 10,560,312	$ 8,892,105

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2021, the District reported a liability of $10,560,312 for its proportionate share of the TRS' Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$ 10,560,312
State's proportionate share that is associated with the District	14,190,528
Total	$ 24,750,840

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

For the fiscal years ended August 31, 2021 and 2020, the District's proportion of the collective Net OPEB Liability was as follows:

2021	2020	
Measurement Year 8/31/2020	Measurement Year 8/31/2019	Increase/(Decrease)
0.0277796829%	0.0274498569%	0.0003298260%

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 health trend rates assumed.

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District's proportionate share of the Net OPEB Liability	$ 8,626,422	$ 10,560,312	$ 13,135,980

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

- The discount rate changed from 2.63% as of August 31, 2019 to 2.33% as of August 31, 2020. This change increased the TOL.
- The participation rate for post-65 retirees was lowered from 50% to 40%. This change decreased the TOL.
- The ultimate health care trend rate assumption was lowered from 4.50% to 4.25% as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change decreased the TOL.
- There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2021, the District recognized OPEB expense of ($139,015) and revenue of ($98,534) 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 sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 552,934	$ 4,832,939
Changes in Actuarial Assumptions	651,352	2,899,916
Net Difference Between Projected and Actual Investment Earnings	3,431	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	703,840	-
District Contributions Paid to TRS Subsequent to the Measurement Date	202,308	-
Total	$ 2,113,865	$ 7,732,855

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

Year Ended August 31:	OPEB Expense Amount
2022	$ (980,568)
2023	(981,027)
2024	(981,289)
2025	(981,217)
2026	(699,150)
Thereafter	(1,198,047)
	$ (5,821,298)

10. MEDICARE PART D – ON BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments made on behalf of the District for fiscal years 2021, 2020, and 2019 were $102,132, $99,069, and $81,714, respectively.

11. OTHER POST EMPLOYMENT BENEFITS

The District does not provide post employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) and TRS Care described above (Note 9). The requirements established by COBRA are fully funded by former employees who elect coverage under the Act, and no direct costs are incurred by the District.

12. OPERATING LEASE

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2021. Rental expenditures for the year ended August 31, 2021 approximated $12,076.

13. RISK MANAGEMENT

General

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

In addition, the District participated in the following TASB Risk Management Fund (the Fund) programs:

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

The Fund was created and is operated under the 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 its Auto, Liability and Property Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funs those reserves. For the year ended August 31, 2021, the Fund anticipates that Kilgore 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 (August 31). The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2020, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended August 31, 2021, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued 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. For the year ended August 31, 2021, the Fund anticipates that Kilgore ISD has no additional liability beyond the contractual obligation for payment of contribution.

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

Health Insurance

The District participates in the Teacher Retirement System of Texas Active Care health care coverage program. This program is a statewide program for public education employees established by the 77th Texas Legislature.

Workers' Compensation

The District participates in the Deep East Texas Self Insurance Fund (DETSIF) for workers' compensation coverage. The DETSIF was created to formulate, develop, administer a program of modified self-funding for the DETSIF's membership, obtain competitive costs for workers' compensation coverage and develop comprehensive loss control program. The District pays an annual premium to the DETSIF for its workers' compensation coverage and transfers the risk of loss to the DETSIF. The District's agreement with the DETSIF provides that that DETSIF will be self-sustaining through member premiums and will provide, through commercial companies, reisurance contracts. The DETSIF maintains stop loss coverage for any claim in excess of the DETSIF's self-insuraed retention of $1,000,000 per accident. In the event that the DETSIF was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the DETSIF. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for ach of the past three fiscal years.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At August 31, 2021, the District had no commitments under construction contracts.

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executory contracts), and are used to control expenditures for the year and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means when a purchase order is prepared, the appropriate accounts are checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes.

Prior to the end of the year, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at year end, the District likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, outstanding encumbrances are not considered expenditures for the fiscal year, only a commitment to expend resources. If the District allows encumbrances to lapse, even though it plans to honor encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually reappropriated in the following year's budget. Open encumbrances at fiscal year end may be included in restricted, committed, or assigned fund balance, as appropriate. The District had no outstanding encumbrances at year.

15. CONTINGENT LIABILITIES

The District is involved in a lawsuit whereby taxpayers are seeking to recover the additional local option homestead exemption which the District's Board of Trustees rescinded in 2015. The District intends to vigorously defend the litigation. Although the District believes it was correct in its decision to rescind the local homestead option, the District has assigned $4,544,956 of general fund fund balance, taking a conservative approach in planning for the District's future.

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 basic financial statement for such contingencies.

16. RELATED ORGANIZATIONS

The Kilgore ISD Education Foundation ("Foundation"), a non-profit entity which was organized in 2009 to provide funds for District teaching and education programs, is a "related organization" as defined by GASB Statement No. 61. The members of the Board of Directors of the Foundation serve without financial compensation. The operations of the Foundation are not financially significant to the overall operations of the District, and therefore are not reported in the District's financial statements.

17. EXCESS EXPENDITURES OVER APPROPRIATIONS

The TEA requires the budgets for the General, Child Nutrition Program, and Debt Service Funds to be filed with the TEA. The budget should not be exceeded in any functional category under TEA requirements. For the year ended August 31, 2021, expenditures exceeded appropriations in the following functional categories:

Fund	Function	Final Budget	Actual	Variance
General	23-School Leadership	$ 2,189,411	$ 2,203,240	$ (13,829)

18. PRIOR PERIOD ADJUSTMENT

In fiscal year 2021, the District implemented GASB Statement No. 84, *Fiduciary Activities*. As such, a prior period adjustment was necessary to restate net position for custodial funds as follows:

	Custodial Funds
Beginning Net Position - As Originally Stated	$ -
Restatement due to :	
Change in accounting principle	130,185
Beginning Net Position - As Restated	$ 130,185

19. COVID-19 PANDEMIC IMPACTS

A novel strain of coronavirus (COVID-19) was spread to the United States of America in January and February 2020. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our students, employees, and vendors all of which are uncertain and cannot be predicted.

While this school year has created unique challenges, the financial position of the District has remained stable. As of the date of these financial statements, COVID-19 had not materially affected results of operations in 2021. However, the impact of response efforts on future operations are unknown and cannot be predicted.

20. SUBSEQUENT EVENTS

On November 2, 2021, district voters passed Propositions A & B totaling $113 million for the construction of a new high school and renovations to existing school facilities.

In preparing the financial statements, the District has evaluated subsequent events through November 15, 2021, the date the financials were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT E-1

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 16,574,206	$ 16,627,931	$ 17,164,588	$ 536,657
5800	State Program Revenues	19,521,143	20,828,507	20,224,402	(604,105)
5900	Federal Program Revenues	350,000	350,000	317,270	(32,730)
5020	Total Revenues	36,445,349	37,806,438	37,706,260	(100,178)
	EXPENDITURES:				
	Current:				
0011	Instruction	18,908,315	18,839,091	17,316,867	1,522,224
0012	Instructional Resources and Media Services	462,021	501,520	494,324	7,196
0013	Curriculum and Instructional Staff Development	879,726	929,740	857,851	71,889
0021	Instructional Leadership	377,923	374,945	306,370	68,575
0023	School Leadership	2,077,455	2,189,411	2,203,240	(13,829)
0031	Guidance, Counseling, and Evaluation Services	1,525,518	1,509,593	1,463,928	45,665
0032	Social Work Services	18,940	26,945	21,962	4,983
0033	Health Services	399,034	399,168	295,693	103,475
0034	Student (Pupil) Transportation	1,650,526	1,676,063	1,264,512	411,551
0035	Food Services	12,300	23,283	6,427	16,856
0036	Extracurricular Activities	1,309,563	1,355,277	1,350,278	4,999
0041	General Administration	1,409,796	1,552,034	1,458,819	93,215
0051	Facilities Maintenance and Operations	5,975,791	6,301,994	4,167,619	2,134,375
0052	Security and Monitoring Services	387,705	393,736	133,287	260,449
0053	Data Processing Services	459,016	489,070	468,293	20,777
0061	Community Services	21,320	21,366	17,372	3,994
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	220,000	-	220,000
	Intergovernmental:				
0099	Other Intergovernmental Charges	349,000	349,000	326,823	22,177
6030	Total Expenditures	36,223,949	37,152,236	32,153,665	4,998,571
1100	Excess of Revenues Over Expenditures	221,400	654,202	5,552,595	4,898,393
	OTHER FINANCING SOURCES (USES):				
7949	Other Resources	-	600,000	485,672	(114,328)
1200	Net Change in Fund Balances	221,400	1,254,202	6,038,267	4,784,065
0100	Fund Balance - September 1 (Beginning)	20,048,085	20,480,085	20,480,085	-
3000	Fund Balance - August 31 (Ending)	$ 20,269,485	$ 21,734,287	$ 26,518,352	$ 4,784,065

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2021

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018
District's Proportion of the Net Pension Liability (Asset)	0.014754677%	0.01522182%	0.01536562%
District's Proportionate Share of Net Pension Liability (Asset)	$ 7,902,304	$ 7,912,777	$ 8,457,612
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	19,136,930	16,379,690	18,386,603
Total	$ 27,039,234	$ 24,292,467	$ 26,844,215
District's Covered Payroll	$ 23,122,658	$ 21,134,970	$ 21,106,735
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	34.18%	37.44%	40.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.54%	75.24%	73.74%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
0.01507144%	0.0184229%	0.157815%	0.0096033%
$ 4,819,036	$ 5,608,679	$ 5,578,550	$ 2,565,175
10,929,124	13,494,212	12,956,186	11,379,214
$ 15,748,160	$ 19,102,891	$ 18,534,736	$ 13,944,389
$ 20,477,271	$ 19,102,891	$ 18,534,736	$ 13,944,389
23.53%	29.36%	30.10%	18.40%
82.17%	78.00%	78.43%	83.25%

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR FISCAL YEAR 2021

	2021	2020	2019
Contractually Required Contribution	$ 608,878	$ 607,624	$ 532,767
Contribution in Relation to the Contractually Required Contribution	(608,878)	(607,624)	(533,152)
Contribution Deficiency (Excess)	$ -	$ -	$ (385)
District's Covered Payroll	$ 22,997,135	$ 23,122,658	$ 21,134,970
Contributions as a Percentage of Covered Payroll	2.65%	2.63%	2.52%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

2018	2017	2016	2015
$ 517,705	$ 489,665	$ 467,467	$ 476,561
(517,705)	(489,665)	(467,467)	(476,561)
$ -	$ -	$ -	$ -
$ 21,106,735	$ 20,477,271	$ 20,243,405	$ 19,695,797
2.45%	2.39%	2.31%	2.42%

EXHIBIT E-4

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2021

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.027779683%	0.027449857%	0.027281303%	$ 0.026217293%
District's Proportionate Share of Net OPEB Liability (Asset)	$ 10,560,312	$ 12,981,373	$ 13,621,805	$ 11,400,917
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	14,190,528	17,249,342	17,382,427	$ 15,603,594
Total	$ 24,750,840	$ 30,230,715	$ 31,004,232	$ 27,004,511
District's Covered Payroll	$ 23,122,658	$ 21,134,970	$ 21,106,735	$ 20,477,271
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	45.67%	61.42%	64.54%	$ 55.68%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.99%	2.66%	1.57%	$ 0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2021 are for the measurement date of August 31, 2020. The amounts for FY 2020 are for the measurement date of August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2021

	2021	2020	2019	2018
Contractually Required Contribution	$ 202,308	$ 212,189	$ 194,290	$ 188,224
Contribution in Relation to the Contractually Required Contribution	202,308	(212,189)	(194,825)	(188,224)
Contribution Deficiency (Excess)	$ -	$ -	$ (535)	$ -
District's Covered Payroll	$ 22,997,135	$ 23,122,658	$ 211,349,702	$ 2,106,735
Contributions as a Percentage of Covered Payroll	0.88%	0.92%	0.92%	0.89%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

Notes to Schedules of Revenues, Expenditures, and Changes in Fund Balance

Budgetary Information

The District adopts an "appropriated budget" for the General Fund, the Debt Service Fund, and the Child Nutrition Fund using the same method of accounting as for financial reporting, as required by law. The remaining Special Revenue Funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to Federal, State and locally imposed length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available or estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2021.

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 31, 2020. The budget was adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods and purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

Excess Expenditures over Appropriations

The TEA requires the budgets for the General, Child Nutrition Programs, and Debt Service Funds to be filed with the TEA. The budget should not be exceeded in any functional category under TEA requirements. For the year ended June 30, 2021, expenditures exceeded appropriations in the following functional categories:

Fund	Function	Final Budget	Actual	Variance
General Fund	23-School Leadership	$ 2,189,411	$ 2,203,240	$ (13,829)

Major Special Revenue Fund

The District's special revenue fund for the ESSER II fund calculates as a major fund and is presented as such on the fund financial statements. This fund is not required to have a legally adopted budget; therefore, no budget-to-actual comparison schedule is presented.

Notes to the Schedule of the District's Proportionate Share of the Net Pension Liability

Changes of Assumptions

There were no changes in assumptions since the prior measurement date.

Notes to Schedule of the District's Proportionate Share of the Net OPEB Liability

Changes of Assumptions

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

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

- The participation rate for post-65 retirees was lowered from 50% to 40%. This change decreased the TOL.

- The ultimate health care trend rate assumption was lowered from 4.50% to 4.25% as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change decreased the TOL.

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

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COMPLIANCE SCHEDULES

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2021

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2012	and prior years	Various	Various	$ Various
2013		1.040000	0.269200	1,660,756,722
2014		1.040000	0.269200	1,642,326,612
2015		1.040000	0.269200	1,625,663,916
2016		1.040000	0.269200	1,621,378,017
2017		1.040000	0.269200	1,525,689,929
2018		1.040000	0.269200	1,522,560,412
2019		1.040000	0.269200	1,596,699,358
2020		0.970000	0.269200	1,721,589,768
2021	(School year under audit)	0.966400	0.259200	1,682,880,793
1000	TOTALS			

(10) Beginning Balance 9/1/2020	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2021
$ 427,748	$ -	$ 16,431	$ 1,854	$ (22,882)	$ 386,581
91,009	-	3,704	966	(1,506)	84,833
95,323	-	4,292	1,141	(1,622)	88,268
116,675	-	12,440	3,246	(1,428)	99,561
119,858	-	9,376	2,579	(145)	107,758
133,867	-	16,363	4,391	400	113,513
219,018	-	25,771	6,824	(2,550)	183,873
275,197	-	49,033	12,867	(5,336)	207,961
798,500	-	376,912	105,126	(18,773)	297,689
-	20,625,387	15,813,755	4,314,115	-	497,517
$ 2,277,195	$ 20,625,387	$ 16,328,077	$ 4,453,109	$ (53,842)	$ 2,067,554

KILGORE 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

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 297,000	$ 297,000	$ 154,901	$ (142,099)
5800	State Program Revenues	11,000	11,000	10,981	(19)
5900	Federal Program Revenues	1,878,000	1,878,000	1,751,218	(126,782)
5020	Total Revenues	2,186,000	2,186,000	1,917,100	(268,900)
	EXPENDITURES:				
	Current:				
0035	Food Services	2,186,000	2,186,000	1,848,003	337,997
6030	Total Expenditures	2,186,000	2,186,000	1,848,003	337,997
1200	Net Change in Fund Balances	-	-	69,097	69,097
0100	Fund Balance - September 1 (Beginning)	640,797	640,797	640,797	-
3000	Fund Balance - August 31 (Ending)	$ 640,797	$ 640,797	$ 709,894	$ 69,097

EXHIBIT F-3

KILGORE 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

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 3,957,968	$ 4,507,968	$ 4,551,908	$ 43,940
5800	State Program Revenues	58,301	58,301	96,255	37,954
5900	Federal Program Revenues	139,973	139,973	140,271	298
5020	Total Revenues	4,156,242	4,706,242	4,788,434	82,192
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	37,130,438	4,126,024	2,970,000	1,156,024
0072	Interest on Long-Term Debt	922,641	922,641	1,127,009	(204,368) *
0073	Bond Issuance Cost and Fees	349,075	349,075	347,997	1,078
6030	Total Expenditures	38,402,154	5,397,740	4,445,006	952,734
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,245,912)	(691,498)	343,428	1,034,926
	OTHER FINANCING SOURCES (USES):				
7901	Refunding Bonds Issued	28,045,000	28,045,000	28,045,000	-
7916	Premium or Discount on Issuance of Bonds	6,138,578	6,138,578	6,138,578	-
8940	Payment to Bond Refunding Escrow Agent (Use)	-	(33,829,580)	(34,329,577)	(499,997)
7080	Total Other Financing Sources (Uses)	34,183,578	353,998	(145,999)	(499,997)
1200	Net Change in Fund Balances	(62,334)	(337,500)	197,429	534,929
0100	Fund Balance - September 1 (Beginning)	4,144,476	4,144,476	4,144,476	-
3000	Fund Balance - August 31 (Ending)	$ 4,082,142	$ 3,806,976	$ 4,341,905	$ 534,929

* In accordance with the Texas Education Agency's Financial Accounting System Resource Guide, each school district must budget all debt service expenditures with function code 71. Function codes 72 and 73 are for reporting purposes only; therefore, debt service expenditures as a whole did not exceed the amended budget.

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FEDERAL AWARDS SECTION

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MAYS & ASSOCIATES PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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*

To the Board of Trustees
KILGORE INDEPENDENT SCHOOL DISTRICT
Kilgore, Texas

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 Kilgore 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, and have issued our report thereon dated November 15, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2021-1.

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District's Response of Findings

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

Purpose of this Report

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

Mays & Associates

Mays & Associates, PLLC

Baytown, Texas
November 15, 2021

MAYS & ASSOCIATES PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
KILGORE INDEPENDENT SCHOOL DISTRICT
Kilgore, Texas

Report on Compliance for Each Major Federal Program

We have audited Kilgore Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2021. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

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Report on Internal Control Over Compliance

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

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

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

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

Mays & Associates

Mays & Associates, PLLC

Baytown, Texas
November 15, 2021

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2021

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiencies identified?		yes	X	none reported
Noncompliance material to financial statements noted:		yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiencies identified?		yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?		yes	X	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.425D	Elementary and Secondary School Emergency Relief (ESSER) Fund
84.425U	American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER)

Dollar threshold used to distinguish between type A and type B programs:			$ 750,000	
Auditee qualified as low-risk auditee?	X	yes		no

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2021

II. FINANCIAL STATEMENT FINDINGS

2021-1 Excess Expenditure over Appropriations

Condition and Criteria: State law mandates that expenditures not exceed appropriation on a functional level.

Cause and Effect: Expenditures exceeded appropriations in one functional category (School Leadership).

Recommendation: District personnel should continue to review all expenditures during the year to ensure that any necessary budget amendments are brought to the Board of Trustees for approval before August 31.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None Noted

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2021

STATUS OF PRIOR YEAR FINDINGS

None Noted

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2021

CORRECTIVE ACTION PLAN

2021-1 Excess Expenditure over Appropriations

Recommendation: District personnel should continue to review all expenditures during the year to ensure that any necessary budget amendments are brought to the Board of Trustees for approval before August 31.

Action Taken: District personnel will continue to monitor expenditures during the year to ensure the final budget amendment provides for all actual expenditures. In addition, the District will adjust its 2021-2022 budget to consider anticipated expenditures (and accruals) prior to year-end.

Anticipated Completion Dates: November 30, 2022.

Please contact Revard Pfeffer, Chief Financial Officer, at 903-988-3900 with any questions regarding this corrective action plan.

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2021

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal Assistance Listing No.	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
DEPARTMENT OF THE TREASURY			
Passed Through-Texas Div. of Emergency Management			
COVID-19 Coronavirus Relief Fund - CARES Act	21.019	2020-CF-21019	$ 16,681
Total Passed Through-Texas Div. of Emergency Management			16,681
TOTAL DEPARTMENT OF THE TREASURY			16,681
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
ESEA, Title I, Part A - Improving Basic Programs	84.010	20610101092902	49,539
ESEA, Title I, Part A - Improving Basic Programs	84.010	21610101092902	768,264
Total Assistance Listing Number 84.010			817,803
*IDEA - Part B, Formula	84.027	206600010929026600	48,636
*IDEA - Part B, Formula	84.027	216600010929026600	677,967
Total Assistance Listing Number 84.027			726,603
Career and Technical - Basic Grant	84.048	21420006092902	45,085
Title III, Part A - English Language Acquisition	84.365	20671001092902	56,860
Title III, Part A - English Language Acquisition	84.365	21671001092902	16,467
Total Assistance Listing Number 84.365			73,327
Educator Assessments	84.367	69451971	500
ESEA, Title II, Part A, Teacher Principal Training	84.367	20694501092902	24,040
ESEA, Title II, Part A, Teacher Principal Training	84.367	21694501092902	91,468
Total Assistance Listing Number 84.367			116,008
COVID-19 ESSER I	84.425	20521001092902	21,565
COVID-19 ARP ESSER II	84.425	21521001092902	1,077,107
COVID-19 ARP ESSER III	84.425	21528001092902	598,145
COVID-19 Prior Purchase Reimb. Progrm (PPRP)	84.425	52102035	381,095
Total Assistance Listing Number 84.425			2,077,912
Title IV, Part A, Subpart 1	84.424	20680101092902	6,867
Title IV, Part A, Subpart 1	84.424	21680101092902	30,897
Total Assistance Listing Number 84.424			37,764
Total Passed Through State Department of Education			3,894,502
TOTAL U.S. DEPARTMENT OF EDUCATION			3,894,502
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
*School Breakfast Program	10.553	71402101	345,288
*National School Lunch Program - Cash Assistance	10.555	71302101	1,151,031
*National School Lunch Prog. - Non-Cash Assistance	10.555	00438	117,916
Total Assistance Listing Number 10.555			1,268,947
*Summer Feeding Program - Cash Assistance	10.559	00438	143,162

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2021

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal Assistance Listing No.	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
Total Child Nutrition Cluster			1,757,397
Total Passed Through the State Department of Agriculture			1,757,397
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,757,397
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 5,668,580

*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2021

1. The District utilizes the fund types specified in the Texas Education Agency's (TEA) *Financial Accountability System Resource Guide.*

   Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

   The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2021. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

   Because the SEFA presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. The District has not elected to use the 10% de minimis indirect costs rate under the Uniform Guidance.

3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types and agency funds are accounted for using a current financial resources measurement focus. All federal grant funds are accounted for in the special revenue funds, a component of the governmental fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

   The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

   Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

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

5. Reconciliation of Federal Program Revenues:

Total Expenditures of Federal Awards	$	5,668,580
School Health and Related Services (SHARS)		317,270
IRS Subsidy		140,271
Total Federal Program Revenues	$	6,126,121

(Per TEA *Financial Accountability System Resource Guide* – SHARS reimbursements are not to be reported on Schedule of Expenditures of Federal Awards.)

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SCHOOLS FIRST QUESTIONNAIRE

KILGORE INDEPENDENT SCHOOL DISTRICT | Fiscal Year 2021

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?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If there was a warrant hold not cleared in 30 days, then not timely.)	Yes
SF4	Was the school district issued a warrant hold? (Yes even if cleared within 30 days.)	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 Govenment Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules in effect at the 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.	0

Financial Advisory Services
Provided By:

SAMCO Capital