OFFICIAL STATEMENT
Dated June 28, 2022

NEW ISSUE – BOOK-ENTRY-ONLY

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

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

MONTGOMERY ISD
MISD
ONE PATH, TOGETHER

$99,060,000
MONTGOMERY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

Dated Date: July 15, 2022 **Due: As shown on page -ii-**
Interest Accrues from Date of Delivery

The "Montgomery Independent School District Unlimited Tax School Building Bonds, Series 2022" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the Montgomery Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 7, 2022 (the "Election"), Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 7, 2022. In the Order, and as permitted by Chapter 1371, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Pricing Certificate was executed by an authorized District official (the "Pricing Officer") on June 28, 2022.

Interest on the Bonds will accrue from the Date of the Delivery (defined below) of the Bonds, will be payable until stated maturity or prior redemption on February 15 and August 15 of each year, commencing February 15, 2023, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the $5,000 of principal amount or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust and Company, N.A., Dallas, Texas to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used for: (a) the construction, acquisition, rehabilitation, renovation, expansion, improvement and equipment of school buildings in the District and the purchase of necessary sites for school buildings and the purchase of new school buses; (b) the construction, acquisition rehabilitation, renovation, expansion, improvement and equipment of athletic stadium facilities in the District, (c) the improvement and upgrading of technology and (d) paying the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" herein.

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

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

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel (see "LEGAL MATTERS"; "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" hereto). Certain matters will be passed upon for the Underwriters by their counsel, Cantu Harden LLP, San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about July 27, 2022 (the "Date of Delivery").

HUNTINGTON CAPITAL MARKETS

ESTRADA HINOJOSA INC. **STEPHENS INC.**

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

$99,060,000

MONTGOMERY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

CUSIP No. Prefix 614121[a]

$38,920,000 Serial Bonds

Stated Maturity (February 15)	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)[b]	CUSIP No. Suffix[a]
2024	900,000	5.000	1.990	XB2
2025	830,000	5.000	2.220	XC0
2026	905,000	5.000	2.360	XD8
2027	1,015,000	5.000	2.420	XE6
2028	1,050,000	5.000	2.570	XF3
2029	1,140,000	5.000	2.730	XG1
2030	1,190,000	5.000	2.860	XH9
2031	1,240,000	5.000	2.960	XJ5
2032	1,310,000	5.000	3.080	XK2
2033	1,355,000	5.000	3.200	XL0
2034	1,395,000	5.000	3.290	XM8
2035	1,450,000	5.000	3.350	XN6
2036	1,435,000	5.000	3.430	XP1
2037	1,505,000	5.000	3.470	XQ9
2038	4,065,000	5.000	3.490	XR7
2039	4,270,000	4.000	3.940	XS5
2040	4,440,000	4.000	4.000	XT3
2041	4,620,000	4.000	4.040	XU0
2042	4,805,000	4.000	4.060	XV8

$60,140,000 Term Bonds

$27,060,000 at 4.000% Term Bond, due February 15, 2047, Priced to yield 4.160% CUSIP No. Suffix: XW6

$33,080,000 at 4.250% Term Bond, due February 15, 2052, Priced to yield 4.250% CUSIP No. Suffix: XX4

(Interest to accrue from the initial Date of Delivery)

The District reserves the option to redeem the Bonds maturing on or after February 15, 2032 in whole or in part before their respective scheduled maturity dates, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2031, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – Redemption Provisions of the Bonds – Optional Redemption" herein. Additionally, the term bonds (the "Term Bonds") maturing in 2047 and 2052 are subject to mandatory sinking fund as described herein. See "THE BONDS – Redemption Provisions of the Bonds – Mandatory Redemption," herein.

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[a] *CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FastSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.*
[b] *The initial reoffering prices or yields of the Bonds are furnished by the Underwriters and represent the initial offering prices or yields to the public, which may be changed by the Underwriters at any time.*

MONTGOMERY INDEPENDENT SCHOOL DISTRICT
20774 Eva Street
Montgomery, TX 77356

ADMINISTRATION – FINANCE CONNECTED

Name	Position
Dr. Heath Morrison	Superintendent
Mr. Kristopher Lynn	Assistant Superintendent of Finance and Operations

CONSULTANTS AND ADVISORS

Orrick, Herrington & Sutcliffe LLP, Houston, Texas	Bond Counsel
Live Oak Public Finance, LLC, Austin, Texas	Financial Advisor
Belt Harris Pechacek, LLLP, Houston, Texas	Certified Public Accountants

For Additional Information Contact:

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

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

THE DISTRICT	The Montgomery Independent School District (the "District") is a political subdivision located in Montgomery County, Texas. The District is approximately 233.5 square miles in area. The District is governed by a seven- member Board of Trustees (the "Board"). Board trustees serve staggered four-year terms with elections being held annually in May. 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.
THE BONDS	The Montgomery Independent School District Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") have been issued in the principal amounts and mature on the dates set forth on page ii hereof. The Bonds bear interest from the Date of Delivery (identified below), at the rates per annum set forth on page ii hereof, which interest is payable each February 15 and August 15, commencing February 15, 2023, until maturity or prior redemption. See "THE BONDS—General Description" herein.
AUTHORITY FOR ISSUANCE	The Bonds have been issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 7, 2022 (the "Election"), including Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 7, 2022. In the Order, and as permitted by Chapter 1371, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Pricing Certificate was executed by an authorized District official (the "Pricing Officer") on June 28, 2022. See "THE BONDS – Authority for Issuance" herein.
DATED DATE	July 15, 2022.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on or after February 15, 2032, in whole or in part before their respective scheduled maturity dates, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2031, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – Redemption Provisions of the Bonds – Optional Redemption" herein. Additionally, the term bonds (the "Term Bonds") maturing in 2047 and 2052 are subject to mandatory sinking fund as described herein. See "THE BONDS – Redemption Provisions of the Bonds – Mandatory Redemption," herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX EXEMPTION	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
PERMANENT SCHOOL FUND GUARANTEE	The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
MUNICIPAL BOND RATING	S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying, unenhanced rating of "AA-" to the District's ad valorem tax-supported indebtedness, including the Bonds.
FUTURE BOND ISSUES	After the issuance of the Bonds, the District will have $226,900,000 in remaining bonds that are authorized, but unissued. The District's voters may approve of the issuance of additional ad valorem tax secured bonds in the future. In addition, 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.
PAYMENT RECORD ……….	The District has never defaulted on the payment of its bond indebtedness.
DELIVERY …………………...	When issued, anticipated to occur on or about July 27, 2022 (the "Date of Delivery").
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas. (See "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" herein).

OFFICIAL STATEMENT

relating to

$99,060,000
MONTGOMERY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Montgomery County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

INTRODUCTION

This Official Statement of Montgomery Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's $99,060,000 Unlimited Tax School Building Bonds, Series 2022 (the "Bonds").

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

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

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and 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 which has been subsequently extended and is still in effect. 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 of the State. On July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Orders GA-13 (related to detention in county and municipal jails) and GA-37 (related to migrant transport). Executive Order GA-38 combines several previous executive orders into one order and continues the prohibition against 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. It also prohibits governmental entities from (i) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals, and similar facilities) if the public or private entity that has adopted such requirement receives public funds any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

On June 3, 2021, TEA issued updated public planning health guidance in accordance with Executive Order GA-36 (which became effective June 5, 2021), to address on campus instruction, administrative activities by teachers, staff or students that occur on school campuses, non-UIL extracurricular sports, and activities, and any other activities that teachers, staff, or students must complete. Within the guidance, TEA instructs schools that, per Executive Order GA-36, school systems cannot require students or staff to wear a mask; however, they school systems must allow individuals to wear a mask if they choose to do so. Within the guidance, TEA instructs schools to notify its local health department, in accordance with applicable federal, State, and local laws and regulations, including any applicable confidentiality requirements, of individuals who have been in a school and test confirmed to have COVID-19. Additionally, upon receipt of information that any teacher, staff member, student, or visitor at a school is test confirmed to have COVID-19, the school must submit a report to the Texas Department of State Health Services via its online portal.

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 and litigation is expected to continue.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available. 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.

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

For a discussion of the impact of the Pandemic on the PSF, see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM FOR THE 2022B BONDS – Infections Disease Outbreak".

PLAN OF FINANCING

Purpose

The Bonds are being issued to pay for the: (a) the construction, acquisition, rehabilitation, renovation, expansion, improvement and equipment of school buildings in the District and the purchase of necessary sites for school buildings and the purchase of new school buses; (b) the construction, acquisition rehabilitation, renovation, expansion, improvement and equipment of athletic stadium facilities in the District, (c) the improvement and upgrading of technology, and (d) costs of issuance of the Bonds.

Sources and Uses of Funds

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

Sources of Funds:	
Par Amount of Bonds	$ 99,060,000.00
Reoffering Premium on the Bonds	1,737,936.05
TOTAL SOURCES	100,797,936.05
Uses of Funds:	
Deposit to Construction Fund	100,000,000.00
Underwriters' Discount	533,146.27
Cost of Issuance and Rounding Amount	264,789.78
TOTAL USES	$100,797,936.05

THE BONDS

General Description

The Bonds are dated July 15, 2022 and mature on February 15 in each of the years and in the amounts set forth on page -ii- hereof. Interest on the Bonds will accrue from the Date of Delivery (defined herein), and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2023, until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 7, 2022 (the "Election"), Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 7, 2022. In the Order, and as permitted by Chapter 1371, the Board delegated to certain District officials the ability to execute a pricing certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Pricing Certificate was executed by the Pricing Officer on June 28, 2022.

Security for Payment

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

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

<u>Optional Redemption</u>

The District reserves the option to redeem the Bonds maturing on or after February 15, 2032 in whole or in part before their respective scheduled maturity dates, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2031, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Redemption

The Bonds maturing in 2047 and 2052 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to stated maturity from moneys required to be deposited in the Bond Fund for such purpose and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 15 in each of the years as set forth below:

Term Bonds Stated to Mature On February 15, 2047

Year	Principal Amount ($)
2043	4,995,000
2044	5,195,000
2045	5,405,000
2046	5,620,000
2047**	5,845,000

Term Bonds Stated to Mature On February 15, 2052

Year	Principal Amount ($)
2048	6,075,000
2049	6,335,000
2050	6,605,000
2051	6,885,000
2052**	7,180,000

**Stated Maturity

The particular Term Bond to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before January 1 of each year in which Term Bond is to be mandatorily redeemed. The principal amount of Term Bond to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bond that has been acquired by the District and delivered to the Paying Agent/Registrar for cancellation or has been optionally redeemed and which has not been made the basis for a previous reduction.

Selection of Bonds for Redemption

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

Notice of Redemption

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

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

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

Defeasance

The Bonds shall be defeased 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, 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 or (2) Government Securities certified by its financial advisor, the Paying Agent/Registrar, an independent certified public accountant, or another 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 moneys deposited therewith, if any, 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, 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 moneys in excess of the amount required for such defeasance.

"Government Securities" shall mean (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, and (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.

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

The defeasance of the Bonds cancels the Permanent School Fund guarantee with respect to the defeased Bonds.

Amendments

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

Default and Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the Bondholders would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A Bondholder could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A Bondholder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a Bondholder could be required to enforce such remedy on a periodic basis.

Chapter 1371, Texas Government Code ("Chapter 1371"), which forms part of the authority for the issuance of the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. However, 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 beyond Chapter 1371, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. In addition, the enforcement of a claim for the payment of a Bond would be subject to the applicable provisions of federal bankruptcy laws and any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

The District is also 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 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. 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, including rights afforded to creditors under the Bankruptcy Code.

Payment Record

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

Legality

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

Delivery

When issued; anticipated to occur on or about July 27, 2022 (the “Date of Delivery”).

Future Issues

After the issuance of the Bonds, the District will have $226,900,000 in remaining bonds that are authorized, but unissued. The District’s voters may approve of the issuance of additional ad valorem tax secured bonds in the future. In addition, 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Successor Paying Agent/Registrar

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

Record Date

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

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

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

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

Replacement Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Texas Permanent School Fund and the Guarantee Program has been provided by the TEA and is not guaranteed as to accuracy or completeness by, and should not be construed as a representation by, the District.

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.

During the 87th Regular Session of the Texas Legislature (the "87th Regular Session"), which concluded on May 31, 2021, Senate Bill 1232 ("SB 1232" or "the bill") was enacted, and the bill became effective on September 1, 2021. SB 1232 provides for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the "PSF Corporation"), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the "SBOE") to the PSF Corporation. SB 1232 also requires changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board ("the "SLB"), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation once the PSF Corporation is created. Certain of the authorizations of SB 1232, including the creation of the PSF Corporation have occurred, but other authorized changes are expected to be implemented in phases, generally from the first quarter of calendar year 2022 through the end of calendar year 2023. See "Management Transition to the PSF Corporation" for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

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 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 SLB's 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, 2021, when 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, 2021 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, 2021 and for a description of the financial results of the PSF for the year ended August 31, 2021, the most recent year for which audited financial information regarding the Fund is available. The 2021 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2021 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 "Management Transition to the PSF Corporation" for ongoing changes in the management structure of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund Prior to the Implementation of SB 1232

The following discussion describes the legal and management structure of the Fund prior to full implementation of SB 1232, which has begun and is expected to continue in phases over an approximately two year period. See "Management Transition to the PSF Corporation" for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 and the ongoing changes in the management structure of the Fund.

The Texas Constitution and applicable statutes delegate to 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.

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, 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 (the "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.

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.

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.

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.

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. 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.

At August 31, 2021, the SLB managed approximately 15% of the PSF, as reflected in the fund balance of the PSF at that date. See "Management Transition to the PSF Corporation" for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

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. 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.

Management Transition to the PSF Corporation

In accordance with SB 1232, at its November 2021 board meeting, the SBOE approved the articles of formation of the PSF Corporation. The articles were filed on December 1, 2021, thus effecting the creation of the PSF Corporation. SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. The bill also provides that the PSF Corporation, the SBOE and TEA must 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. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally occurring in calendar year 2023. As a result, the full implementation of SB 1232 will necessarily evolve over time with the timing of certain aspects of its implementation yet to be determined.

As allowed by SB 1232, the PSF Corporation has been created as a special-purpose governmental corporation and instrumentality of the State which is entitled to sovereign immunity. The PSF Corporation is to 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.

At the inaugural meeting of the Board in January 2022, the Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation. The interim chief executive officer will report to the Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the Board but are subject to approval by the SBOE.

Notwithstanding the management transition for the Fund from the SBOE to the PSF Corporation, the provisions of the Texas Constitution that formerly applied to the SBOE's management will continue to provide a framework for the management of the Fund. In particular, the Prudent Person Standard is applicable to the PSF Corporation, and the Total Return Constitutional Amendment will govern distributions from the PSF to the ASF by the SBOE. A separate constitutional provision allowing distributions from the PSF to the ASF that is currently used by the SLB was also granted to the PSF Corporation. When determining any amount to distribute, the PSF Corporation may consider distributions made by the SBOE. In addition, the Fund will continue to be managed as a perpetual endowment for the benefit of citizens of the State.

The SLB's investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB will no longer be authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and direct real estate holdings; the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals. Tentatively, the transfer of SLB assets to the management of the PSF Corporation is expected to occur in late 2022 or early 2023, but exceptions could be made for specific investments.

In connection with the transfer of SLB's investment funds to the PSF Corporation, the PSF Corporation will also determine when the Liquid Account can be abolished, and any remaining balance transferred to the PSF managed by the PSF Corporation.

Not less than once each year, the Board must submit an audit report to the Legislative Budget Board ("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 does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with other State laws.

As required by State law, during the 87th Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note 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 could not be determined during the legislative session. However, the fiscal note stated that TEA and the GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

The State general appropriations act for fiscal years 2022-23 required TEA (and GLO) to submit a plan to the LBB describing the steps required to implement SB 1232, and the plan was submitted on September 1, 2021. The plan included a description of appropriated funds and full time equivalent employees ("FTEs") to be transferred to PSF Corporation and identified costs to accrue to TEA as a result of such transfers. The plan identified a cost range of approximately $8,000,000 to $11,000,000 required in connection with the establishment of the PSF Corporation. During the Summer or Fall of 2022, an appropriation request is expected to be made by the chief executive officer of the PSF Corporation acting in cooperation with the Board to LBB in preparation for the 2024-2025 State biennium.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
PSF(SBOE) Distribution	$1,021	$1,021	$839	$839	$1,056	$1,056	$1,236	$1,236	$1,102	$1,102
PSF(SLB) Distribution	$0	$300	$0	$0	$0	$0	$0	$300	$600	$600[2]
Per Student Distribution	$221	$281	$175	$173	$215	$212	$247	$306	$347	$341

[1] In millions of dollars. Source: PSF Annual Report for year ended August 31, 2021.
[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 "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that may impact distributions to the ASF.

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 Liquid Account asset allocation was most recently revised in November 2021). The next scheduled review of the PSF(SBOE) asset allocation is June 2022. See "Management Transition to the PSF Corporation" for a discussion of planned 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%	60%
Public Equity Total	34%	37%	0%	60%
Large Cap US Equity	13%	14%	0%	30%
Small/Mid Cap US Equity	5%	6%	0%	7%
International Equities	13%	14%	0%	23%
Emerging Markets Equity	2%	3%	0%	0%
Private Equity	13%	15%	0%	0%
Fixed Income Total	27%	25%	0%	38%
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%	23%
Alternative Investments Total	25%	22%	100%	0%
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%	2%

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, 2020 and 2021.

Comparative Investment Schedule - PSF(SBOE)[1]

Fair Value (in millions) August 31, 2021 and 2020				
ASSET CLASS	August 31, 2021	August 31, 2020	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	$ 2,597.3	$ 2,005.8	$ 591.5	29.5%
Domestic Large Cap	6,218.7	5,106.3	1,112.4	21.8%
Total Domestic Equity	8,816.0	7,112.1	1,703.9	24.0%
International Equity	8,062.1	6,380.9	1,681.2	26.3%
TOTAL EQUITY	16,878.1	13,493.0	3,385.1	25.1%
FIXED INCOME				
Domestic Fixed Income	4,853.1	4,232.6	620.5	14.7%
U.S. Treasuries	1,243.3	918.7	324.6	35.3%
Emerging Market Debt	2,683.7	2,450.7	233.0	9.5%
TOTAL FIXED INCOME	8,780.1	7,602.0	1,178.1	15.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,546.0	3,517.2	28.8	0.8%
Real Estate	3,706.0	3,102.1	603.9	19.5%
Private Equity	7,724.6	4,761.5	2,963.1	62.2%
Risk Parity	-	1,164.9	(1,164.9)	-100.0%
Real Return	1,675.5	2,047.4	(371.9)	-18.2%
TOT ALT INVESTMENTS	16,652.1	14,593.1	2,059.0	14.1%
UNALLOCATED CASH	262.9	122.9	140.0	113.9%
TOTAL PSF(SBOE) INVESTMENTS	$ 42,573.2	$ 35,811.0	$ 6,762.2	18.9%

Source: PSF Annual Report for year ended August 31, 2021.

[1] The investments shown in the table above at August 31, 2021 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 and that policy was revised in November 2021 (the current allocation is as shown in the table "PSF Strategic Asset Allocations" above). As so amended, the Liquid Account asset allocation is expected to be fully implemented in the first calendar quarter of calendar year 2022. See "Management Transition to the PSF Corporation" for a discussion of planned 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, 2021.

Liquid Account Fair Value at August 31, 2021[1]

Fair Value (in millions) August 31, 2021 and 2020

ASSET CLASS	August 31, 2021	August 31, 2020	Amount of Increase (Decrease)	Percent Change
Equity				
Domestic Small/Mid Cap	$228.3	-	$228.3	N/A
Domestic Large Cap	578.6	-	578.6	N/A
Total Domestic Equity	806.9	-	806.9	N/A
International Equity	392.6	-	392.6	N/A
TOTAL EQUITY	1,199.5	-	1,199.5	N/A
Fixed Income				
Short-Term Fixed Income	1,074.8	$1,597.3	(522.5)	-32.7%
Core Bonds	413.1	-	413.1	N/A
TIPS	213.9	-	213.9	N/A
TOTAL FIXED INCOME	1,701.8	1,597.3	104.5	6.5%
Unallocated Cash	1,420.5	2,453.3	(1,032.8)	-42.1%
Total Liquid Account Investments	$4,321.8	$4,050.6	$271.2	6.7%

[1] In millions of dollars.
Source: PSF Annual Report for year ended August 31, 2021.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2020 and 2021.

Comparative Investment Schedule - PSF(SLB)

	Fair Value (in millions) August 31, 2021 and 2020			
	As of 8-31-21	As of 8-31-20	Increase (Decrease)	Percent Change
Asset Class				
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds[1]				
Energy/Minerals	$1,707.5	$1,164.0	$543.5	46.7%
Infrastructure	1,652.3	1,485.4	166.9	11.2%
Real Estate	1,276.8	1,174.8	102.0	8.7%
Internally Managed Direct Real Estate Investments	223.9	219.5	4.4	2.0%
Total Discretionary Real Assets Investments	4,860.5	4,043.7	816.8	20.2%
Dom. Equity Rec'd as In-Kind Distribution	1.7	0.9	0.8	88.9%
Sovereign and Other Lands	405.4	408.6	(3.2)	-0.8%
Mineral Interests	2,720.4	2,115.4	605	28.6%
Cash at State Treasury[2]	699.2	333.8	365.4	109.5%
Total PSF(SLB) Investments	$8,687.2	$6,902.4	$1,784.8	25.9%

[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 "Management Transition to the PSF Corporation" for a discussion of planned 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 February 11, 2022, there were 191 active open-enrollment charter schools in the State and there were 911 charter school campuses active under such charters (though as of such date, 27 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 Capacity Limit 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 Capacity Limit	
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 Capacity Limit increased from $128,247,002,583 on August 31, 2020 to $135,449,634,408 on August 31, 2021 (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 federal tax law requirements regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the SBOE will be successful in that undertaking. 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 December 31, 2021, the Charter District Reserve Fund contained $72,968,033, which represented approximately 2.1% of the guaranteed charter district bonds. The Reserve Fund 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. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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 offunding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is so 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.

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. 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.

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 CharterDistrict Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF.

Infectious Disease Outbreak

A respiratory disease named "2019 novel coronavirus" ("COVID-19") has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S.president declared a national emergency and the Governor of Texas (the "Governor") declared COVID-19 as a statewide public health disaster (the "COVID-19 Declarations"). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; 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.

Potential Impact of COVID-19 in the State and Investment Markets

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

TEA Continuity of Operations

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID- 19 declarations. As noted above, under "The School District Bond Guarantee Program," the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

Impact of COVID-19 on School Districts and Charter Districts

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. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA's guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented "hold harmless" funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at https://tea.texas.gov/texas-schools/health-safety- discipline/covid/coronavirus-covid-19-support-and-guidance.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein.

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
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	36,642,000,738	46,764,059,745
2021[2]	38,699,045,012	55,581,401,632

[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, 2021, 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, $183.7 million, $4,655.9 million, $4.7 million, and $699.2 million, respectively, and market values of approximately $2,720.4 million, $629.3 million, $4,636.6 million, $1.8 million, and $699.2 million, respectively. At December 31, 2021, the PSF had a book value of $39,841,061,222 and a market value of $56,168,194,806. December 31, 2021 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2017	$74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259161,922[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, 2021 (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 $144,196,223,433, of which $48,937,061,511 represents interest to be paid. As shown in the table above, at August 31, 2021, there were $95,259,161,922 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 December 31, 2021, 6.49% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2021, the amount of outstanding bond guarantees represented 82.68% of the Capacity Limit (which is currently the IRS Limit). December 31, 2021 values are based on unaudited data, which 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
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	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021(2)	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922

(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 December 31, 2021 (based on unaudited data, which is subject to adjustment), there were $96,973,094,043 of bonds guaranteed under the Guarantee Program, representing 3,520 school district issues, aggregating $97,006,213,263 in principal amount and 89 charter district issues, aggregating $3,408,646,000 in principal amount. At December 31, 2021, the CDBGP Capacity was $7,612,220,802 (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, 2021, 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, 2021, 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 2021, the Fund balance was $55.6 billion, an increase of $8.9 billion from the prior year. This increase is primarily due to overall net increases in value of the asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. 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, 2021, net of fees, were 22.97%, 10.49% and 9.05%, respectively, and the Liquid(SBOE) annual rate of return for the one-year period ending August 31, 2021, net of fees, was 4.90% (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 12.81%, 1.56%, and 4.18%, 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, 2021.

As of August 31, 2021, 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, 2021, totaled $2.0 billion in real estate investments and $2.4 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2021[1]

Portfolio	Return	Benchmark Return[2]
Total PSF(SBOE) Portfolio	22.97%	20.73%
Domestic Large Cap Equities(SBOE)	31.26	31.17
Domestic Small/Mid Cap Equities(SBOE)	47.88	47.40
International Equities(SBOE)	25.27	24.87
Emerging Market Equity(SBOE)	19.33	21.12
Fixed Income(SBOE)	1.64	-0.08
Treasuries	-7.02	-7.27
Absolute Return(SBOE)	13.84	13.05
Real Estate(SBOE)	12.06	9.34
Private Equity(SBOE)	53.88	43.38
Real Return(SBOE)	16.06	18.08
Emerging Market Debt(SBOE)	5.92	4.14
Liquid Large Cap Equity(SBOE)	43.24	38.19
Liquid Small Cap Equity(SBOE)	61.97	52.07
Liquid International Equity(SBOE)	12.20	12.18
Liquid Short-Term Fixed Income(SBOE)	0.91	0.37
Liquid Core Bonds(SBOE)	-0.07	-0.18
Liquid TIPS(SBOE)	6.09	6.20
Liquid Transition Cash Reserves(SBOE)	0.44	0.08
Liquid Combined(SBOE)	4.90	4.27
PSF(SLB)	12.81	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, 2021.

[2] Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2021.

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, 2021, the remaining commitments totaled approximately $2.24 billion.

For fiscal year 2021, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $10.8 billion, an increase of $8.8 billion from fiscal year 2020 earnings of $2.0 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2021. In fiscal year 2021, 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, increased 42.5% for the fiscal year ending August 31, 2021. This increase is primarily attributable to an increase 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 2020 and 2021, the distribution from the SBOE to the ASF totaled $1.1 billion and $1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2020 and 2021 totaled $600 and $600 million, respectively.

At the end of the 2021 fiscal year, PSF assets guaranteed $95.3 billion in bonds issued by 880 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 8,203 school district and charter district bond issues totaling $220.2 billion in principal amount. During the 2021 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,429. The dollar amount of guaranteed school and charter bond issues outstanding increased by $4.9 billion or 5.4%. The State Capacity Limit increased by $7.2 billion, or 5.6%, during fiscal year 2021 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 2021 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 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, 2021, the remaining commitments totaled approximately $2.24 billion.

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PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $40,000 exemption of the appraised value of all homesteads (effective for the 2022 tax year), (2) a $10,000 exemption of the appraised value of the homesteads of person 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 May 7, 2022, a constitutional referendum was presented to the voters of the State, to increase the exemption of the appraised value of all homestead from $25,000 to $40,000. This constitutional amendment was approved by the voters at an election held on May 7, 2022, and the increased exemption amount will be effective for the tax year beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature 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.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning prior to January 1, 2022, 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. For tax years beginning on or after January 1, 2022, 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, as amended.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at $50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate. For tax year 2022, the State Comptroller has determined the minimum eligibility amount to be $52,978,200.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and generally become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District, which is used to the fees of a delinquent tax collection attorney. 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.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising all of the property in the District as well as other taxing units in Montgomery County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Montgomery County political subdivisions. The District's taxes are collected by the Montgomery County Tax Assessor/Collector (the "Tax Assessor/Collector").

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

The District's taxes are collected by the Tax Assessor/Collectors Office. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

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

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

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

The Tax Assessor/Collector does not allow split payments of taxes.

The Tax Assessor/Collector does not give discounts for early payment of taxes. The District does not participate in a tax increment-financing zone.

The District does not tax non-business personal property.

The District does tax “goods in transit” without exemption.

The District has granted the freeport property tax exemption.

The District does not grant the additional local option exemption of up to 10% of the market value of residence homesteads; minimum exemption of $5,000.

The District grants a state mandated local homestead exemption of $25,000 for taxpayers ($40,000 effective for the 2022 tax year), and an additional state mandated exemption of $10,000 for taxpayers who are at least 65 years of age or disabled.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the 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"). During the 2021 Legislative Session, the 87th Texas Legislature introduced House Bill 1525 ("HB 1525"), which was originally intended as a "HB 3 cleanup" bill, but covered many school finance and education-related matters. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2 in light of the changes made in HB 1525, 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 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, HB 1525 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 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.

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. Beginning in the State fiscal year ending in 2021, 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. During the 2021 Texas Legislative Session, a provision of the general appropriations act reduced the maximum MCR for the 2021-2022 school year. It established $0.9134 as the maximum rate and $0.8220 as the floor.

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

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

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

State Funding for School Districts

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

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

The current public school finance system also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2022-2023 State fiscal biennium, the State Legislature appropriated funds in the amount of $1,007,300,000 for the EDA, IFA, and NIFA.

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

Tier One. Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" in the Regular Program (being generally calculated as the sum of student attendance for each State-mandated day of regular instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is then supplemented by additional State funds, allotted for all other instructional programs based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

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

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 2022-2023 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

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

2021 Legislative Session

The 87th Texas Legislature concluded on May 31, 2021. The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. During this time, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. Such legislation may include legislation that modifies the process for setting school district tax rates or implements temporary tax relief measures.

The Governor called three special sessions in 2021, a first special session that began on July 8, 2021, a second special session that began on August 7, 2021 and a third special session that began on September 20, 2021 and ended on October 19, 2021.

During the 87th Texas Legislative Session, the Legislature approved a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures, among other legislation affecting school districts and the administrative agencies that oversee school districts. Of note, House Bill 1525 contained a number of technical modifications to the Finance System as established under HB 3 during the 86th Legislative Session. During the second called special session, the Legislature approved bills addressing virtual learning, taxation of the elderly and disabled and residence homesteads and related hold harmless provisions for school districts, and other matters that may impact the District. During the third called special session, the Legislature passed Senate Joint Resolution No. 2 ("SJR 2"), which proposed a constitutional amendment to increase the residential homestead exemption from ad valorem taxation for public schools from $25,000 to $40,000, and its enabling legislation Senate Bill 1. The constitutional amendment proposed by SJR 2 was approved by voters in May 2022. The District is in the process of evaluating the legislation that passed during the 87th Texas Legislative Session and the called special sessions and how such laws may impact the District. The District can make no representations or predictions regarding the impact of the legislation passed at this time.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters under section 45.003(d) of the Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described below (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" below).

The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on September 12, 1970, under Article 2784e-1, Texas Revised Statutes Annotated, as amended (Article 2784e-1").

The 2019 Legislation established the following maximum M&O tax rate per $100 of taxable value that may be adopted by independent school districts, such as the District, for the 2020 and subsequent tax years:

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "NOTE 13 "Defined Benefit Pension Plan" in the Notes to the Financial Statements" as set out in the audited financial statements of the District for the year ended June 30, 2021 as set forth in APPENDIX B hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "NOTE 14 "Defined Benefit Pension Plan" in the Notes to the Financial Statements" in the audited financial statements of the District for the year ended June 30, 2021 as set forth in APPENDIX B hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions,* which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending June 30, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the 2020-21 fiscal year, the District had a net pension liability of $5,347,090.

See primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See the audited financial statements of the District for the year ended June 30, 2021 as set forth in APPENDIX B hereto for information related to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to make investments meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA"), which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool is rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Investment Policies

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

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

Additional Provisions

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

LEGAL MATTERS

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

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

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

Litigation

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

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

TAX MATTERS

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

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

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

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

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

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

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

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

Payments on the Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

CONTINUING DISCLOSURE

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

Annual Reports

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

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

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

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

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

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

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

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

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The

Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities act of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the 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.

Municipal Bond Rating

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

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

Financial Advisor

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

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

Underwriting

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 register ed with the Securities and Exchange Commission.

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the par amount of the bonds, plus a net reoffering premium of $1,737,936.05, less an Underwriters' discount of $533,146.27 (and no accrued interest). The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. 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 its various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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

Forward Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

/s/ Kristopher Lynn
Pricing Officer

APPENDIX A

SELECTED FINANCIAL INFORMATION OF THE DISTRICT

TABLE 1 - Valuation, Exemptions & Tax Supported Debt

2021/22 Market Valuation Established by the Montgomery Central Appraisal District (Excludes Fully Exempt Property)			$	8,574,586,541
Less: Exemptions/Reductions at 100% Market Value				
Homestead Cap Adjustment	$	147,660,455		
Productivity Loss		491,092,408		
Residential Homestead Exemptions		353,453,080		
Over 65 Exemptions		61,778,245		
Disabled Persons Exemptions		2,429,140		
Disabled Veterans Exemptions		81,956,647		
Leased Vehicles		315,577		
Freeport		2,293,124		
Pollution Control		565,449		
Other Exemptions/Reductions		1,523,275		1,143,067,400
2021/22 Taxable Assessed Valuation			$	7,431,519,141 [1]

[1] *Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers. Per Montgomery CAD July certification, excluding under ARB*

Debt Payable from Ad Valorem Taxes (as of June 30, 2022, including the Bonds)	$	409,105,000
Interest and Sinking Fund Balance (as of June 30, 2021)	$	8,832,707
Ratio of Tax Supported Debt to Taxable Assessed Valuation		5.50%
2022 Estimated Population		49,901
Per Capita Taxable Assessed Valuation	$	148,925.25
Per Capita Debt Payable from Ad Valorem Taxes	$	8,198.33

[1] *Source: Municipal Advisory Council of Texas*

TABLE 2 - Taxable Assessed Valuations by Category

Property Use Category	Total Assessed Valuation for Fiscal Years, FYE 6/30 2022	% of Total	2021	% of Total	2020	% of Total	2019	% of Total
Real, Residential, Single-family	$ 6,613,222,743	77.13%	$ 6,304,125,822	76.15%	$5,753,165,016	75.34%	$ 5,406,405,736	77.05%
Real, Residential, Multi-family	48,238,550	0.56%	48,418,840	0.58%	42,338,390	0.55%	44,946,220	0.64%
Real, Vacant Platted Lots/Tracts	259,050,603	3.02%	263,101,700	3.18%	269,682,617	3.53%	236,411,541	3.37%
Real, Acreage (Land Only)	602,053,040	7.02%	602,396,570	7.28%	577,200,920	7.56%	409,218,590	5.83%
Real, Farm and Ranch Improvements	387,188,137	4.52%	392,131,907	4.74%	355,099,253	4.65%	305,029,968	4.35%
Real, Commercial and Industrial	343,663,720	4.01%	350,910,340	4.24%	313,014,462	4.10%	315,958,732	4.50%
Real, Oil, Gas and Other Minerals Reserves	3,119,680	0.04%	3,119,680	0.04%	2,588,690	0.03%	1,791,840	0.03%
Real, and Intangible Personal, Utilities	126,943,718	1.48%	122,071,515	1.47%	112,551,295	1.47%	103,245,500	1.47%
Tangible Personal, Business	142,819,455	1.67%	143,980,608	1.74%	157,793,659	2.07%	143,775,773	2.05%
Tangible Personal, Other	12,910,070	0.15%	13,236,830	0.16%	10,007,160	0.13%	10,099,670	0.14%
Real Inventory	34,626,710	0.40%	34,640,260	0.42%	41,819,650	0.55%	38,796,098	0.55%
Special Inventory	750,115	0.01%	750,115	0.01%	823,298	0.01%	972,518	0.01%
Total Appraised Value Before Exemptions	**$ 8,574,586,541**	100.00%	**$ 8,278,884,187**	**100.01%**	**$ 7,636,084,410**	**99.99%**	**$ 7,016,652,186**	**99.99%**
Less: Total Exemptions/Reductions	(1,143,067,400)		(1,242,002,189)		(1,176,760,201)		(936,804,567)	
Taxable Assessed Value	**$ 7,431,519,141**		**$ 7,036,881,998**		**$ 6,459,324,209**		**$ 6,079,847,619**	

NOTE: Valuations shown are taxable assessed values reported by the Montgomery Central Appraisal District to the State Comptroller of Public Accounts. Values are subject to change throughout the year as contested values are resolved and the Appraisal District updates its records. Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers. Values may differ from those shown in the District's financial statements due to subsequent adjustments.

TABLE 3 – VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended	Estimated District Population [1]	Taxable Assessed Valuation [2]	Per Capita Taxable Assessed Valuation	Ad Valorem Tax Supported Debt Outstanding at End of Year	Per Capita Tax Supported Debt	Ratio of Tax Supported Debt To Taxable Assessed Valuation
8/31/2018	47,839	$ 5,899,730,718	$ 118,229	$ 343,550,000	$ 6,885	5.82%
6/30/2019	48,461	6,126,998,596	122,783	337,175,000	6,757	5.50%
6/30/2020	48,965	6,227,554,646	124,798	328,960,000	6,592	5.28%
6/30/2021	52,912	6,692,776,693	134,121	319,790,000	6,408	4.78%
6/30/2022	49,901	7,431,519,141	148,925	418,850,000 (3)	8,394 (3)	5.64%

(1) Source: The Municipal Advisory Council of Texas and District Records

(2) Valuations shown are taxable assessed values reported by the Montgomery Central Appraisal District to the State Comptroller of Public Accounts. Values are subject to change throughout the year as contested values are resolved and the Appraisal District updates its records. Includes value of property which is "frozen" at lower levels for homesteads of taxpayers 65 years or older, their surviving spouses and disabled taxpayers. Values may differ from those shown in the District's financial statements due to subsequent adjustments.

TABLE 4 - Tax Rate, Levy and Collection History [1]

Tax Year	Tax Rate	General Fund	Interest & Sinking Fund	Tax Levy (2)	Collections (1)(2) % Current	% Total	Fiscal Year Ending
2017	$ 1.37000	$ 1.0400	$ 0.3300	$ 75,853,944	98.72%	99.85%	8/31/2018
2018	1.37000	1.0400	0.3300	79,130,994	97.35%	98.33%	6/30/2019 [3]
2019	1.30750	0.9700	0.3375	81,425,277	97.72%	99.10%	6/30/2020
2020	1.27980	0.9423	0.3375	84,220,320	98.10%	100.09%	6/30/2021
2021	1.26000	0.8857	0.3743	93,637,141	In Process of Collection		6/30/2022

(1) Excludes penalties and interest.

(2) Source: The District's audited financial statements for the corresponding fiscal year. Values may differ from those shown in the District's financial statements due to subsequent adjustments.

(3) The District changed its fiscal year-end from August 31 to June 30 in 2018-19, resulting in a ten month fiscal year.

TABLE 5 - Principal Taxpayers [1]

Taxpayer Name	Property Type	2021/22 AV	% of Total
LAKESIDE RESORT JV LLC	Resort	$58,306,010	0.68%
TEXAS EXPRESS PIPELINE	Oil & Gas Pipeline	29,300,220	0.34%
BNSF RAILWAY COMPANY	Railroad	28,638,220	0.33%
ENTERGY TEXAS INC	Electric Utility/Power Plant	28,517,460	0.33%
WAL-MART REAL ESTATE BUS TRST	Retail Store	22,028,342	0.26%
MID-SOUTH SYNERGY	Electric Utility/Power Plant	16,446,020	0.19%
KROGER TEXAS LP	Grocery Store	16,146,917	0.19%
MCCANTS FOREST LAND LIMITED	Commercial	15,865,780	0.19%
STEWART CREEK PARTNERS	Construction	14,425,330	0.17%
NRG CONROE VILLAS LP	Apartments	13,531,360	0.16%
		$243,205,659	2.84%

(1) Source: Montgomery Central Appraisal District Certification Records

TABLE 6 - Tax Adequacy [1]

Estimated Principal and Interest Requirements (2022)	$23,616,410
$0.321 Tax Rate on 2021/22 Taxable Assessed Valuation at 99% Collection Produces	$23,616,625
Maximum Principal and Interest Requirements (2039)	$28,940,500
$0.389 Tax Rate on 2021/22 Taxable Assessed Valuation at 99% Collection Produces	$28,619,523
Average Principal and Interest Requirements (2022-2052)	$21,939,377
$0.297 Tax Rate on 2021/22 Taxable Assessed Valuation at 99% Collection Produces	$21,850,896

(1) Based on 2021/22 Taxable Assessed Valuation

TABLE 7 - Estimated Overlapping Debt [1]

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Blaketree MUD #1	5/31/2022	$16,535,000	40.39%	$6,678,487
Montgomery County	5/31/2022	464,200,000	10.40%	48,276,800
Montgomery County MUD #8	5/31/2022	22,040,000	100.00%	22,040,000
Montgomery County MUD #9	5/31/2022	25,095,000	100.00%	25,095,000
Montgomery County MUD #18	5/31/2022	7,715,000	100.00%	7,715,000
Montgomery County MUD #113	5/31/2022	128,580,000	42.15%	54,196,470
Montgomery County MUD #121	5/31/2022	7,800,000	10.93%	852,540
Montgomery County MUD #166	5/31/2022	4,000,000	100.00%	4,000,000
Montgomery County UD #3	5/31/2022	3,480,000	100.00%	3,480,000
Montgomery County UD #4	5/31/2022	9,285,000	94.34%	8,759,469
Montgomery, City of	5/31/2022	8,355,000	100.00%	8,355,000
Stanley Lake MUD	5/31/2022	21,935,000	100.00%	21,935,000
Estimated (Net) Overlapping Debt				**$211,383,766**
Montgomery ISD [2]	6/30/2022	$409,105,000	100.00%	409,105,000
Total Direct & Estimated Overlapping Debt				$620,488,766

Total and Overlapping Debt as a % of 2021 Certified Taxable Assessed Valuation	8.35%
Total and Overlapping Debt as a Per Capita	$12,434

(1) Source: The Municipal Advisory Council of Texas

(2) Includes the Bonds

NON-FUNDED DEBT:

As of June 30, 2022, the District has no non-funded debt outstanding.

TABLE 8 - Tax Supported Debt Service Requirements

	Outstanding Debt Service	The Bonds			
Fiscal Year Ending 6/30	**Total**	**Principal**	**Interest**	**Total**	**Revised Total Debt Service**
2022	$ 23,616,410	$ -	$ -	$ -	$ 23,616,410
2023	22,634,835	-	2,339,123	2,339,123	24,973,957
2024	23,062,414	900,000	4,252,950	5,152,950	28,215,364
2025	23,177,199	830,000	4,207,950	5,037,950	28,215,149
2026	23,142,544	905,000	4,166,450	5,071,450	28,213,994
2027	23,075,914	1,015,000	4,121,200	5,136,200	28,212,114
2028	23,073,274	1,050,000	4,070,450	5,120,450	28,193,724
2029	22,144,105	1,140,000	4,017,950	5,157,950	27,302,055
2030	21,426,942	1,190,000	3,960,950	5,150,950	26,577,892
2031	21,438,342	1,240,000	3,901,450	5,141,450	26,579,792
2032	21,429,742	1,310,000	3,839,450	5,149,450	26,579,192
2033	21,449,842	1,355,000	3,773,950	5,128,950	26,578,792
2034	21,475,042	1,395,000	3,706,200	5,101,200	26,576,242
2035	21,488,842	1,450,000	3,636,450	5,086,450	26,575,292
2036	21,467,192	1,435,000	3,563,950	4,998,950	26,466,142
2037	21,469,258	1,505,000	3,492,200	4,997,200	26,466,458
2038	21,457,454	4,065,000	3,416,950	7,481,950	28,939,404
2039	21,456,800	4,270,000	3,213,700	7,483,700	28,940,500
2040	5,770,600	4,440,000	3,042,900	7,482,900	13,253,500
2041	17,286,200	4,620,000	2,865,300	7,485,300	24,771,500
2042	17,297,200	4,805,000	2,680,500	7,485,500	24,782,700
2043	17,310,200	4,995,000	2,488,300	7,483,300	24,793,500
2044	17,324,200	5,195,000	2,288,500	7,483,500	24,807,700
2045	17,338,200	5,405,000	2,080,700	7,485,700	24,823,900
2046	3,281,200	5,620,000	1,864,500	7,484,500	10,765,700
2047		5,845,000	1,639,700	7,484,700	7,484,700
2048		6,075,000	1,405,900	7,480,900	7,480,900
2049		6,335,000	1,147,713	7,482,713	7,482,713
2050		6,605,000	878,475	7,483,475	7,483,475
2051		6,885,000	597,763	7,482,763	7,482,763
2052		7,180,000	305,150	7,485,150	7,485,150
Total	**$494,093,953**	**$99,060,000**	**$86,966,723**	**$186,026,723**	**$680,120,675**

Estimated Average Annual Debt Service Requirement	$ 21,939,377
Estimated Maximum Debt Service Requirement	$ 28,940,500

TABLE 9 − INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending June 30, 2022		$23,616,410 (1)
Interest and Sinking Fund Balance as of June 30, 2021	$8,832,707	
Estimated Local Revenue (i.e. taxes, interest earnings, etc.), Fiscal Year Ending June 30, 2022	$22,679,768 (2)	
Estimated State Revenue, Fiscal Year Ending June 30, 2022	$423,207 (2)	$31,935,682
Projected Interest and Sinking Fund Balance as of June 30, 2022		$8,319,272

(1) Includes paying agent/registrar fees and other bond related expenses.
(2) Source: TEA Summary of Finance.

TABLE 10 – Authorized but Unissued Unlimited Tax Bonds

The District had a successful bond election on May 7, 2022 and the following depicts the authorization and issued/unissed:

Proposition	Amount	Issued	Unissued
School Building	$ 312,986,000	$ 94,000,000	$ 218,986,000
Athletic Improvements	$ 8,514,000	$ 3,000,000	$ 5,514,000
Technology	$ 5,400,000	$ 3,000,000	$ 2,400,000

TABLE 11 − OTHER OBLIGATIONS

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

TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY [1]

	For Fiscal Year Ended June 30,			For Fiscal Year Ended August 31,	
	2021	**2020**	**2019 (1)**	**2018**	**2017**
REVENUES:					
Local and Intermediate Sources	$ 66,119,213	$ 62,994,252	$ 62,972,490	$ 60,407,812	$ 55,903,140
State Program Revenues	12,018,050	13,136,093	14,220,259	8,987,167	8,595,817
Federal Program Revenues	3,747,027	595,828	1,221,159	623,568	476,155
Total Revenues	**81,884,290**	**76,726,173**	**78,413,908**	**70,018,547**	**64,975,112**
EXPENDITURES:					
Instruction	45,605,389	47,689,768	41,496,809	42,084,819	39,939,896
Instructional Resources & Media Services	684,169	761,836	512,235	691,530	703,895
Curriculum and Instructional Staff Development	1,337	235,916	242,434	303,445	666,027
Instructional Leadership	744,299	639,954	516,512	663,388	352,041
School Leadership	4,188,269	4,312,443	3,456,568	3,750,271	3,632,514
Guidance, Counseling & Evaluation Services	2,098,687	2,193,993	1,861,203	2,382,299	2,092,171
Health Services	731,751	726,307	612,722	727,625	681,851
Student Transportation	3,781,309	3,765,842	3,653,350	4,028,131	4,305,748
Cocurricular/Extracurricular Activities	2,069,663	1,536,336	1,749,714	1,318,691	1,336,988
General Administration	2,370,346	1,961,946	1,657,786	2,129,924	1,911,237
Facilities Maintenance & Operations	9,869,592	9,729,116	7,791,942	7,419,696	6,394,973
Security Monitoring and Services	872,796	976,399	869,898	656,719	504,198
Data Processing Services	2,388,234	1,338,820	1,165,949	1,156,274	1,090,027
Community Services	142,591	174,968	92,576	115,139	95,669
Facilities acquisition and construction	-	-	-	6,861	80,159
Contracted Instructional Services	-	-	3,896,789	2,398,456	-
Payments to Juvenile Justice Alternative Ed. Progran	-	32,080	19,540	22,015	10,370
Other Intergovernmental	670,453	682,495	698,725	655,968	624,385
Total Expenses	**$ 76,218,885**	**$ 76,758,219**	**$ 70,294,752**	**$ 70,511,251**	**$ 64,422,149**
Excess (Deficiency) of Revenues Over Expenditures	$ 5,665,405	$ (32,046)	$ 8,119,156	$ (492,704)	$ 552,963
Other Sources (Uses)	$ 749,515	$ -	$ -	$ 52,417	$ (14,042)
Net Change in Fund Balance	$ 6,414,920	$ (32,046)	$ 8,119,156	$ (440,287)	$ 538,921
Fund Balances - Beginning	**$ 19,700,946**	**$ 19,732,992**	**$ 11,613,836**	**$ 12,054,123**	**$ 11,515,202**
Prior Period Adjustment	-	-	-	-	-
Fund Balances - Ending [2]	**$ 26,115,866**	**$ 19,700,946**	**$ 19,732,992**	**$ 11,613,836**	**$ 12,054,123**

Source: District's audited financial statements

[1] *The District changed its fiscal year-end from August 31 to June 30 in 2018-19, resulting in a ten month fiscal year.*

[2] *Estimated General Fund Balance on June 30, 2022 is expected to be $26,000,000.*

TABLE 13 − GENERAL FUND COMPARATIVE BALANCE SHEET

	For Fiscal Year Ended June 30,			For Fiscal Year Ended August 31,	
	2021	**2020**	**2019 (1)**	**2018**	**2017**
Assets:					
Cash and Cash Equivalents	$ 36,857,158	$ 23,170,668	$ 18,890,729	$ 10,555,114	$ 11,393,231
Current Investments	-	4,397,287	4,323,289	4,234,462	4,960,347
Receivables:					
Property Taxes - Delinquent	2,402,710	2,630,535	2,436,207	1,838,313	1,790,279
Allowance for Uncollectible Taxes	(433,510)	(526,107)	(487,241)	(367,663)	(358,056)
Due from Other Governments	1,253,780	1,247,595	5,040,683	1,265,771	56,195
Due from Other Funds	3,010,977	1,071,703	1,018,804	279,283	752,123
Other Receivables	-	818,385	-	-	-
Other Assets	-	9,400	9,400	9,400	9,400
Total Assets	**$ 43,091,115**	**$ 32,819,466**	**$ 31,231,871**	**$ 17,814,680**	**$ 18,603,519**
Liabilities:					
Accounts Payable	$ 377,638	$ 1,163,658	$ 475,701	$ 168,794	$ 435,173
Payroll Deductions and Withholdings	834,104	76,618	558,523	470,841	-
Accrued Wages Payable	6,765,939	7,894,183	7,261,327	3,959,417	3,412,996
Due to Other Funds	634,100	130,889	141,004	47,990	-
Due to Other Governments	-	1,748,744	1,113,358	-	-
Accrued Liabilities	258,886	-	-	83,152	-
Unearned Revenue	6,137,135	-	-	-	1,269,003
Total Liabilities	**$ 15,007,802**	**$ 11,014,092**	**$ 9,549,913**	**$ 4,730,194**	**$ 5,117,172**
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	$ 1,967,447	$ 2,104,428	$ 1,948,966	$ 1,470,650	$ 1,432,224
Total Deferred Inflows of Resources	**$ 1,967,447**	**$ 2,104,428**	**$ 1,948,966**	**$ 1,470,650**	**$ 1,432,224**
Fund Balances:					
Non-Spendable Other Assets	-	9,400	9,400	9,400	9,400
Committed for Capital Acquisitions	-	-	-	-	-
Committed For Other	-	-	-	4,000,000	3,700,000
Unassigned	26,115,866	19,691,546	19,723,592	7,604,436	8,344,723
Total Fund Balances	**$ 26,115,866**	**$ 19,700,946**	**$ 19,732,992**	**$ 11,613,836**	**$ 12,054,123**
Total Liabilities, Deferred Inflows of	-	-	-	-	-
Resources and Fund Balances	**$ 43,091,115**	**$ 32,819,466**	**$ 31,231,871**	**$ 17,814,680**	**$ 18,603,519**

Source: District's audited financial statements

(1) The District changed its fiscal year-end from August 31 to June 30 in 2018-19, resulting in a ten month fiscal year.

As of March 31, 2022, the District had the following investments:

Description	Book Value	Market Value	% of Total Market Value
Texas CLASS (investment pool)	$ 5,695,540	$ 5,695,540	42.82%
Texas RANGE (investment pool)	7,607,069	7,607,069	57.18%
	$ 13,302,609	$ 13,302,609	100.00%

Source: The District's financial statements.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Montgomery Independent School District Audited Financial Statements (the “Report”) for the fiscal year ended June 30, 2021.

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

ANNUAL FINANCIAL REPORT

of the

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

For the Year Ended
June 30, 2021

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

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Montgomery Independent School District

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June 30, 2021

INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Montgomery Independent School District	Montgomery	170-903
Name of School District	County	Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____approved _____disapproved for the year ended June 30, 2021, at a meeting of the Board of Trustees of such school district on the _____ day of _______________, _____.

______________________________ Signature of Board Secretary

______________________________ Signature of Board President

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

(attach list as necessary)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Montgomery Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery Independent School District (the "District"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 District'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 District'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.

Houston · Austin · Bellville · Woodville
3210 Bingle Rd., Ste. 300, Houston, TX 77055 // P: 713.263.1123 // info@txauditors.com // www.texasauditors.com

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 June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
December 10, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of Montgomery 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 fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial condition.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at June 30, 2021 was a deficit of $61,249,629.
- For the fiscal year ended June 30, 2021, the District's general fund reported a total fund balance of $26,115,866, all of which is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of $39,663,199.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- The *proprietary fund* statements provide information related to the District's internal service fund.
- *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 fiduciary resources belong. These funds include student activity and private-purpose trust funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

> *Governmental Activities* – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation, and maintenance are included in *governmental activities.* Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.

- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.

- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

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

- *Proprietary funds* – The District maintains one proprietary fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses the internal service fund to account for workers' compensation self-insurance claims and fees. The internal service fund is included within *governmental activities* in the government-wide financial statements.

- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit of $61,249,629 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. *Table 1* indicates current assets and liabilities experienced decreases in the current year. The large decrease in liabilities is mainly related to the decrease in the OPEB liability and current year principal payments. *Table 2* reflects the District reporting an increase in total revenue of $4,199,637, which was mainly the result of insurance proceeds for vandalism and the February 2021 freeze, monies received from the Montgomery County for Coronavirus Relief fund, and an increase in property tax revenue due to increases in valuations. Total expenses experienced a total decrease of $6,158,870, which is primarily the result of decreases in payroll expenses due to employee turnover and decreases in pension and other postemployment benefits (OPEB) expenses related to amortizations, a decrease in the net OPEB liability, and a decrease in on-behalf expenses.

Table 1
Net Position

Description	Governmental Activities 2021	Governmental Activities 2020	Total Change 2021-2020
Current assets	$ 57,590,076	$ 48,713,664	$ 8,876,412
Capital assets	294,015,056	306,707,334	(12,692,278)
Total Assets	351,605,132	355,420,998	(3,815,866)
Deferred charge on refunding	3,715,273	4,474,211	(758,938)
Deferred outflows - pensions	9,742,303	12,330,399	(2,588,096)
Deferred outflows - OPEB	6,050,679	6,918,673	(867,994)
Total Deferred Outflows of Resources	19,508,255	23,723,283	(4,215,028)
Current liabilities	20,202,539	16,680,744	3,521,795
Long-term liabilities	392,629,645	408,154,875	(15,525,230)
Total Liabilities	412,832,184	424,835,619	(12,003,435)
Deferred inflows - pensions	2,993,348	3,728,606	(735,258)
Deferred inflows - OPEB	16,537,484	12,056,339	4,481,145
Total Deferred Inflows of Resources	19,530,832	15,784,945	3,745,887
Net Position:			
Net investment in capital assets	(46,640,313)	(43,173,903)	(3,466,410)
Restricted	6,708,664	6,377,559	331,105
Unrestricted	(21,317,980)	(24,679,939)	3,361,959
Total Net Position	$ (61,249,629)	$ (61,476,283)	$ 226,654

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2021	**2020**	**2021-2020**
Revenues			
Program revenues:			
Charges for services	$ 3,128,752	$ 2,931,550	$ 197,202
Operating grants and contributions	11,880,634	13,938,826	(2,058,192)
General revenues:			
Property taxes	85,603,662	81,597,715	4,005,947
Grants and contributions not restricted	10,808,275	9,924,713	883,562
Investment earnings	102,489	626,600	(524,111)
Miscellaneous local and intermediate revenue	2,276,515	581,286	1,695,229
Total Revenue	113,800,327	109,600,690	4,199,637
Expenses			
Instruction	60,763,161	66,925,439	(6,162,278)
Instructional resources and media services	854,182	977,890	(123,708)
Curriculum and staff development	61,246	306,424	(245,178)
Instructional leadership	819,393	826,984	(7,591)
School leadership	4,432,794	4,863,992	(431,198)
Guidance, counseling, and evaluation services	2,963,225	3,521,729	(558,504)
Social work/health services	807,398	858,509	(51,111)
Student (pupil) transportation	4,067,922	4,327,688	(259,766)
Food services	4,244,110	4,627,173	(383,063)
Co-curricular/extracurricular activities	2,961,979	2,724,068	237,911
General administration	2,455,226	2,172,592	282,634
Plant maintenance and operations	10,950,233	9,963,429	986,804
Security and monitoring	876,805	1,038,287	(161,482)
Data processing services	2,866,938	1,392,758	1,474,180
Community services	341,558	376,660	(35,102)
Interest on long-term debt	13,434,800	14,114,346	(679,546)
Payments related to shared service arrangements	-	32,080	640,623
Other intergovernmental charges	672,703	682,495	(9,792)
Total Expenses	113,573,673	119,732,543	(6,158,870)
Increase/Decrease in Net Position Before Transfers	226,654	(10,131,853)	10,358,507
Transfers in (out)	-	392,287	(392,287)
Change in Net Position	226,654	(9,739,566)	9,966,220
Beginning net position	(61,476,283)	(51,736,717)	(9,739,566)
Ending Net Position	$ (61,249,629)	$ (61,476,283)	$ 226,654

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending June 30, 2021, the District's governmental funds reported a combined fund balance of $39,663,199. This compares to a combined fund balance of $34,340,960 at June 30, 2020.

The fund balance in the general fund increased primarily due to an increase in property tax revenue as a result of higher property valuations compared to prior year, insurance recovery monies received due to vandalism, 2021 freeze, and equipment breakdown claims, and increases in federal program revenue from Montgomery County to help cover expenses related to distance learning and safe reopening of schools. Expenditures during the year experienced an overall decrease due to decreases in instruction expenditures as a result of a reduction in payroll from employee turnovers that was partially offset by an increase in data processing services related to coronavirus expenditures.

The debt service fund fund balance decrease is primarily due to scheduled principal and interest payments on outstanding bonds in excess of property tax collections.

The national school breakfast and lunch program fund balance increased primarily due to an increase in local revenues from increases in meal collections and a decrease in payroll related expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended June 30, 2021, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. The general fund's actual revenues exceeded budgeted revenues by $1,836,290 primarily due to greater federal program revenue received than budgeted. The budgeted expenditures exceeded actual expenditures by $3,797,927 due primarily to less instruction and plant maintenance and operations expenditures than anticipated.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. During the fiscal year ended June 30, 2021, the District used a capitalization threshold of $5,000, which means that all capital type assets, including library books, with a cost or initial value of less than $5,000 were not included in the capital assets inventory.

At June 30, 2021, the District had a total of $294,015,056 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This total includes capital assets not being depreciated in the amount of $8,569,503.

Major capital asset events during the fiscal year included the following:

- Three new school buses $377,514
- Two new police vehicles $19,396

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had $346,758,100 in general obligation and direct placement bonds and premiums outstanding versus $357,403,092 last year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

COVID-19

The continued spread of the COVID-19 pandemic has given rise in uncertainties that may have a significant negative impact on the operating activities and results of the District. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) governmental quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the overall economy, all of which are uncertain.

The overall impact the financial operations for the 2020-2021 school year as a percentage of the overall budget was nominal.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGET AND RATES

The following are highlights of the 2021-2022 General Operating Budget:

Expenditures:

- Continuation of successful instructional plans and activities of the District
- Supports the goals as established by the Board of Trustees
- Supports the Campus Improvement Plans of the campuses
- Satisfies all state requirements and mandates

Revenues:

- 2021 certified values (Freeze Adjusted Taxable) of $5,700,406,912
- 100% current and delinquent collection of local taxes
- Estimated enrollment of students of 9,396
- Tax rate: $0.8857 for Maintenance & Operations and $0.3743 for Debt Service for a combined total of $1.2600, which is a reduction from the prior year.

In preparing the 2021-2022 budget, the District faced a number of challenges, both internally and externally, including the effects of the COVID-19 pandemic. The budget at adoption contained a surplus of funds with revenues exceeding expenses by $846,365. The District administration continues to develop goals that ensure a transparent, collaborative budget process that culminates in the adoption of a balanced budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Montgomery Independent School District Administration Office at 20774 Eva Street, Montgomery, Texas 77353 or by calling (936) 276-2000.

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BASIC FINANCIAL STATEMENTS

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Montgomery Independent School District

STATEMENT OF NET POSITION - EXHIBIT A-1

June 30, 2021

Data Control Codes		1 Governmental Activities
	Assets	
1110	Cash and cash equivalents	$ 52,850,209
1220	Property taxes receivable (delinquent)	3,248,310
1230	Allowance for uncollectible taxes	(595,401)
1240	Due from other governments	2,047,808
1267	Due from fiduciary funds	1,030
1300	Inventories	38,120
		57,590,076
	Capital assets:	
1510	Land	8,569,503
1520	Buildings, net	282,579,747
1530	Furniture and equipment, net	639,219
1540	Vehicles, net	2,226,587
		294,015,056
1000	**Total Assets**	351,605,132
	Deferred Outflows of Resources	
1700	Deferred charge on refunding	3,715,273
1705	Deferred outflows - pensions	9,742,303
1710	Deferred outflows - OPEB	6,050,679
	Total Deferred Outflows of Resources	19,508,255
	Liabilities	
2110	Accounts payable	493,147
2140	Interest payable	5,173,040
2150	Payroll deductions and withholdings	834,104
2160	Accrued wages payable	6,965,579
2190	Due to fiduciary funds	165,005
2200	Accrued expenses	258,886
2300	Unearned revenue	6,312,778
		20,202,539
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	9,745,000
2502	Long-term liabilities due in more than one year	337,013,100
2540	Net pension liability	23,650,252
2545	Net OPEB liability	22,221,293
		392,629,645
2000	**Total Liabilities**	412,832,184
	Deferred Inflows of Resources	
2605	Deferred inflows - pensions	2,993,348
2610	Deferred inflows - OPEB	16,537,484
	Total Deferred Inflows of Recources	19,530,832
	Net Position	
3200	Net investment in capital assets	(46,640,313)
	Restricted for:	
3820	State and federal programs	1,782,111
3850	Debt service	4,343,376
3870	Other purposes	583,177
3900	Unrestricted	(21,317,980)
3000	**Total Net Position**	$ (61,249,629)

See Notes to Financial Statements.

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Montgomery Independent School District

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended June 30, 2021

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position 6 Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
11	Instruction	$ 60,763,161	$ 317,558	$ 6,756,848	$ (53,688,755)
12	Instructional resources				
12	and media services	854,182	-	50,954	(803,228)
13	Curriculum/instructional				
13	staff development	61,246	-	18,127	(43,119)
21	Instructional leadership	819,393	-	76,581	(742,812)
23	School leadership	4,432,794	-	334,501	(4,098,293)
31	Guidance, counseling, and				
31	evaluation services	2,963,225	-	835,081	(2,128,144)
33	Health services	807,398	-	60,493	(746,905)
34	Student (pupil) transportation	4,067,922	-	168,491	(3,899,431)
35	Food services	4,244,110	2,174,615	1,768,473	(301,022)
36	Extracurricular activities	2,961,979	617,826	64,732	(2,279,421)
41	General administration	2,455,226	-	129,540	(2,325,686)
51	Plant maintenance and operations	10,950,233	18,753	103,062	(10,828,418)
52	Security and monitoring services	876,805	-	49,834	(826,971)
53	Data processing services	2,866,938	-	1,031,623	(1,835,315)
61	Community services	341,558	-	2,605	(338,953)
72	Debt service - interest on				
72	long-term debt	13,434,800	-	429,687	(13,005,113)
99	Other intergovernment charges	672,703	-	-	(672,703)
	Total Governmental Activities	$ 113,573,673	$ 3,128,752	$ 11,880,634	(98,564,287)
TP	**Total Primary Government**	$ 113,573,673	$ 3,128,752	$ 11,880,634	(98,564,287)

Data Control Codes		
	General Revenues	
MT	Property taxes, levied for general purposes	63,039,971
DT	Property taxes, levied for debt service	22,563,691
GC	Grants and contributions not restricted	
GC	for specific programs	10,808,275
IE	Investment earnings	102,489
MI	Miscellaneous local and intermediate revenue	2,276,515
TR	**Total General Revenues**	98,790,941
CN	**Change in Net Position**	226,654
	Beginning net position, as restated	(61,476,283)
NE	**Ending Net Position**	$ (61,249,629)

See Notes to Financial Statements.

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

June 30, 2021

Data Control Codes		10 General	50 Debt Service	24 National School Breakfast Lunch Program	Nonmajor Governmental
	Assets				
1110	Cash and cash equivalents	$ 36,857,158	$ 8,397,253	$ 3,731,980	$ 3,604,608
1220	Property taxes - delinquent	2,402,710	845,600	-	-
1230	Allowance for uncollectible taxes	(433,510)	(161,891)	-	-
1240	Due from other governments	1,253,780	-	-	794,028
1260	Due from other funds	3,009,947	467,946	1,149	-
1267	Due from fiduciary funds	1,030	-	-	-
1300	Inventories	-	-	38,120	-
1000	**Total Assets**	$ 43,091,115	$ 9,548,908	$ 3,771,249	$ 4,398,636
	Liabilities				
2110	Accounts payable	$ 377,638	$ -	$ 75,288	$ 27,233
2150	Payroll deductions and withholdings	834,104	-	-	-
2160	Accrued wages payable	6,765,939	-	199,640	-
2170	Due to other funds	469,095	-	1,679,389	1,330,558
2190	Due to fiduciary funds	165,005	-	-	-
2200	Accrued expenses	258,886	-	-	-
2300	Unearned revenue	6,137,135	32,492	111,989	31,162
2000	**Total Liabilities**	15,007,802	32,492	2,066,306	1,388,953
	Deferred Inflows of Resources				
2600	Unavailable revenue - property taxes	1,967,447	683,709	-	-
	Fund Balances				
	Nonspendable:				
3410	Inventories	-	-	38,120	-
	Restricted:				
3450	Federal/state funds grant restrictions	-	-	1,704,943	39,048
3470	Construction	-	-	-	2,387,458
3480	Debt service	-	8,832,707	-	-
3490	Other restrictions of fund balance	-	-	-	583,177
3600	Unassigned	26,115,866	-	(38,120)	-
3000	**Total Fund Balances**	26,115,866	8,832,707	1,704,943	3,009,683
4000 4000	**Total Liabilities, Deferred Inflows of Resources, and Fund Balances**	$ 43,091,115	$ 9,548,908	$ 3,771,249	$ 4,398,636

See Notes to Financial Statements.

	Total Governmental Funds
	$ 52,590,999
	3,248,310
	(595,401)
	2,047,808
	3,479,042
	1,030
	38,120
	$ 60,809,908
	$ 480,159
	834,104
	6,965,579
	3,479,042
	165,005
	258,886
	6,312,778
	18,495,553
	2,651,156
	38,120
	1,743,991
	2,387,458
	8,832,707
	583,177
	26,077,746
	39,663,199
	$ 60,809,908

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Montgomery Independent School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R

June 30, 2021

Total fund balances for governmental funds		$	39,663,199
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.			
Capital assets – nondepreciable	8,569,503		
Capital assets – depreciable	285,445,553		
			294,015,056
Other long-term assets (deferred taxes) are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			2,651,156
Internal service funds are used by management to charge the costs of of certain capital activities to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.			246,222
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Deferred outflows - pensions	9,742,303		
Deferred inflows - pensions	(2,993,348)		
Deferred outflows - OPEB	6,050,679		
Deferred inflows - OPEB	(16,537,484)		
Accrued interest	(5,173,040)		
Deferred charge on refunding	3,715,273		
Premium on long-term debt	(26,968,100)		
Noncurrent liabilities due in one year	(9,745,000)		
Noncurrent liabilities due in more than one year	(310,045,000)		
Net pension liability	(23,650,252)		
Net OPEB liability	(22,221,293)		
			(397,825,262)
Net Position of Governmental Activities		$	(61,249,629)

See Notes to Financial Statements.

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2

For the Year Ended June 30, 2021

Data Control Codes		10 General	50 Debt Service	24 National School Breakfast Lunch Program	Nonmajor Governmental
	Revenues				
5700	Local, intermediate, and out-of-state	$ 66,119,213	$ 22,576,196	$ 2,180,748	$ 363,591
5800	State program revenues	12,018,050	429,687	164,105	718,168
5900	Federal program revenues	3,747,027	-	1,564,614	3,275,571
5020	**Total Revenues**	81,884,290	23,005,883	3,909,467	4,357,330
	Expenditures				
0011	Instruction	45,605,389	-	-	2,959,879
0012	Instructional resources and media services	684,169	-	-	-
0013	Curriculum/instructional staff development	1,337	-	-	6,507
0021	Instructional leadership	744,299	-	-	4,221
0023	School leadership	4,188,269	-	-	-
0031	Guidance, counseling, and evaluation services	2,098,687	-	-	556,739
0033	Health services	731,751	-	-	-
0034	Student (pupil) transportation	3,781,309	-	-	194,846
0035	Food services	-	-	3,884,957	-
0036	Extracurricular activities	2,069,663	-	-	304,624
0041	General administration	2,370,346	-	-	-
0051	Plant maintenance and operations	9,869,592	-	-	20,886
0052	Security and monitoring services	872,796	-	-	-
0053	Data processing services	2,388,234	-	-	482,570
0061	Community services	142,591	-	-	-
	Debt service:				
0071	Principal	-	9,170,000	-	-
0072	Interest and fiscal charges	-	14,309,615	-	-
0081	**Capital outlay**	-	-	-	468,267
	Intergovernmental:				
0099	Other governmental charges	670,453	2,250	-	-
6030	**Total Expenditures**	76,218,885	23,481,865	3,884,957	4,998,539
1100	**Excess (Deficiency) of Revenues Over (Under) Expenditures**	5,665,405	(475,982)	24,510	(641,209)
	Other Financing Sources (Uses)				
7912	Sale of real and personal property	749,515	-	-	-
7080	**Total Other Financing Sources)**	749,515	-	-	-
1200	**Net Change in Fund Balances**	6,414,920	(475,982)	24,510	(641,209)
0100	Beginning fund balances	19,700,946	9,308,689	1,680,433	3,650,892
3000	**Ending Fund Balances**	$ 26,115,866	$ 8,832,707	$ 1,704,943	$ 3,009,683

See Notes to Financial Statements.

98

Total Governmental Funds
$ 91,239,748
13,330,010
8,587,212
113,156,970
48,565,268
684,169
7,844
748,520
4,188,269
2,655,426
731,751
3,976,155
3,884,957
2,374,287
2,370,346
9,890,478
872,796
2,870,804
142,591
9,170,000
14,309,615
468,267
672,703
108,584,246
4,572,724
749,515
749,515
5,322,239
34,340,960
$ 39,663,199

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Montgomery Independent School District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - EXHIBIT C-3

For the Year Ended June 30, 2021

Net changes in fund balances - total governmental funds	$	5,322,239
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation		(13,070,579)
Capital outlay, net of disposal of assets		378,301
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(128,330)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.		
Principal repayments		9,170,000
Accrued interest		158,761
Amortization of loss on bond refunding		(758,938)
Amortization of premiums		1,474,992
Pension and other postemployment benefits (OPEB) activity reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure or revenue in governmental funds.		
Change in net pension liability		(766,998)
Change in net OPEB liability		5,647,236
Change in deferred outflows - pensions		(2,588,096)
Change in deferred inflows - pensions		735,258
Change in deferred outflows - OPEB		(867,994)
Change in deferred inflows - OPEB		(4,481,145)
Net on-behalf contributions adjustments - revenues		771,687
Net on behalf contributions adjustments - expenses		(771,687)
Internal service funds are used by management to charge the costs of certain activities, such as employee healthcare, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		1,947
Change in Net Position of Governmental Activities	$	226,654

See Notes to Financial Statements.

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Montgomery Independent School District

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND - EXHIBIT D-1

June 30, 2021

Data Control Codes			770 Workers' Compensation
	Assets:		
1110	Cash and cash equivalents		$ 259,210
		Total Assets	259,210
	Liabilities:		
	Current liabilities:		
2110	Accounts payable		12,988
2000		**Total Liabilities**	12,988
	Net Position:		
3600	Unrestricted		246,222
4000		**Total Net Position**	$ 246,222

See Notes to Financial Statements.

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION INTERNAL SERVICE FUND - EXHIBIT D-2

For the Year Ended June 30, 2021

Data Control Codes		770 Workers' Compensation
	Operating Revenues:	
5700	Local and intermediate sources	$ 1,947
5020	**Total Operating Revenues**	1,947
1200	**Changes in Net Position**	1,947
0100	Beginning net position	244,275
3000	**Ending Net Position**	$ 246,222

See Notes to Financial Statements.

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Montgomery Independent School District

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUND - EXHIBIT D-3

For the Year Ended June 30, 2021

	770
	Workers' Compensation
Cash Flows from Operating Activities	
Cash received from customers	$ 1,947
Cash payments for insurance claims	(1,246)
Net Cash Provided by Operating Activities	701
Beginning cash and cash equivalents	258,509
Ending Cash and Cash Equivalents	$ 259,210
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating income	$ 1,947
Increases and (decreases) in current assets and liabilities:	
Prepaid items	1,205
Accounts payable	(2,451)
Net Cash Provided by Operating Activities	$ 701

See Notes to Financial Statements.

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-1

June 30, 2021

Data Control Codes		Private - Purpose Trust Funds	Custodial Funds
	Assets		
1110	Cash and cash equivalents	$ 1,330,921	$ 726,759
1260	Due from other funds	-	165,005
1000	**Total Assets**	1,330,921	891,764
	Liabilities		
	Current liabilities:		
2110	Accounts payable	-	10,009
2170	Due to other funds	-	1,030
2000	**Total Liabilities**	-	11,039
	Net Position		
3800	Held in trust	1,330,921	880,725
3000	**Total Net Position**	$ 1,330,921	$ 880,725

See Notes to Financial Statements.

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Montgomery Independent School District

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-2

For the Year Ended June 30, 2021

	Private - Purpose Trust Funds	Custodial Funds
Additions		
Investment income	$ 3,514	$ 1,836
Fundraising	-	1,305,053
Athletic activities	-	1,024
Donations	93,567	22,231
Other	-	5,688
Total Additions	97,081	1,335,832
Deductions		
Scholarship awards	59,500	-
Dance	-	98,324
Athletics	-	564,307
Band	-	72,045
Cheer	-	87,114
Choir	-	83,089
FFA	-	57,958
Fishing team	-	25,360
Junior class	-	55,178
Student council	-	37,004
Theatre	-	32,716
Yearbook	-	38,163
Other expenses	-	158,610
Total Deductions	59,500	1,309,868
Change in Net Position	37,581	25,964
Beginning net position	1,293,340	854,761
Ending Net Position	$ 1,330,921	$ 880,725

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Montgomery Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas (the "State"). 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 generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB), 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.

The District is an independent political subdivision of the State governed by a board elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by GAAP, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Additionally, prescribed criteria under GAAP include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these considerations, the Montgomery Independent School District Education Foundation (the "Foundation") has been identified as a related organization to the District but is not included as part of the District's reporting entity.

The Foundation is a nonprofit organization established under Internal Revenue Service regulations as a conduit for tax-deductible donations to provide grants designed to encourage, facilitate, recognize, and reward innovative and creative instructional approaches that will enhance the education of the students of the District. The Foundation was formed in 2015 and is governed by an eleven-member board of directors (the "Foundation Board"). In addition, the Superintendent of the District serves as an Ex-Officio member of the Foundation Board but has no voting privileges. Vacancies to the Foundation Board are appointed by the Board, but the District's accountability for the Foundation does not extend beyond making the appointments.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

C. Basis of Presentation – Government-Wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

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

The District reports the following governmental funds:

General Fund

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a nonmajor fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund. The national school breakfast and lunch program fund is used to account for and report financial resources that are related to the child nutrition funding and while it is not a major fund for reporting purposes the District elected to present as major due to its significance.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses includes costs of material, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has the following types of proprietary funds:

Internal Service Funds

This fund is used to account for and report revenue and expenses related to services provided to parties inside the District on a cost reimbursement basis and account for the District's workers' compensation risk management. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the governmental activities column of the governmental-wide financial statements.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District has the following type of fiduciary funds:

Custodial Funds

The custodial funds report resources, not in a trust, that are held by the District for other parties outside of the District. Custodial funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

Private-Purpose Trust Funds

The private-purpose trust funds are used to report resources held in trust. The trust funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's scholarship trust funds.

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents. The District uses a consolidated claim on cash to track each participating fund's claim on cash which is net of each fund's current receivable and payables. The general fund's financial statements include gross receivables and payable for all funds, and the general fund's claim on cash is adjusted accordingly.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Fully collateralized repurchase agreements that meet certain criteria
Government investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government 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 historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	15 to 40 years
Furniture, equipment and vehicles	5 to 20 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

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

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

7. Compensated Absences

State law entitles all employees to five days of paid personal leave per year. Paraprofessional and professional employees earn five days of local leave per school year at the same rate as state personal leave. All part-time employees, whether contract or non-contract, earn 2.5 days of local leave per school year, at the same rate as state personal leave. The District's compensatory time policy requires that compensatory time be taken by the end of the school year in which it was earned.

Any unused leave accumulates without monetary value and is not paid upon termination, and as such, no liability for compensated absences is accrued in the District's financial statements.

8. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

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

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

11. Estimates

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

12. 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 TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

13. Pensions

The fiduciary net position of 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.

14. Other Postemployment Benefits

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. These amendments caused material changes in budgeted amounts.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2021, the District had the following investments:

Investment Type		Fair Value	Weighted Average Maturity (Years)
Texas CLASS Investment Pool	$	5,695,540	0.14
Texas TERM Investment Pool		8,439,222	0.15
Total Investments	$	14,134,762	
Porfolio weighted average maturity			0.14

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primary in short-term securities.

Credit risk. The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of June 30, 2021, the District's investments in investment pools were rated "AAAm' or 'AAA' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of June 30, 2021, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Texas CLASS

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

Texas TERM

The Texas Term Local Government Investment Pool ("TexasTERM") is a local government investment pool 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. TexasTERM is administered by PFM Asset Management LLC, which also serves as the investment advisor. The reported value of TexasTERM is the same as the fair value of the TexasTERM shares. Investment options include TexasDAILY, a money market portfolio, that is rated 'AAAm' by Standard & Poor's, and TexasTERM CD Purchase Program, a fixed rate, fixed-term investment option enabling investors to invest in FDIC insured certificates of deposit from banks throughout the United States.

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

	Beginning Balances	Increases	(Decreases)	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 8,638,457	$ -	$ (68,954)	$ 8,569,503
Total Capital Assets Not Being Depreciated	8,638,457	-	(68,954)	8,569,503
Other capital assets:				
Buildings and improvements	391,101,801	40,524	-	391,142,325
Furniture and equipment	2,867,550	77,611	-	2,945,161
Vehicles	9,905,234	329,120	-	10,234,354
Total Other Capital Assets	403,874,585	447,255	-	404,321,840
Less accumulated depreciation for:				
Buildings and improvements	(95,999,156)	(12,563,422)	-	(108,562,578)
Furniture and equipment	(2,189,606)	(116,336)	-	(2,305,942)
Vehicles	(7,616,946)	(390,821)	-	(8,007,767)
Total Accumulated Depreciation	(105,805,708)	(13,070,579)	-	(118,876,287)
Other capital assets, net	298,068,877	(12,623,324)	-	285,445,553
Governmental Activities Capital Assets, Net	$ 306,707,334	$ (12,623,324)	$ (68,954)	294,015,056
			Less associated debt	(346,758,100)
			Plus unspent bond proceeds	2,387,458
			Plus deferred charge on refunding	3,715,273
			Net Investment in Capital Assets	$ (46,640,313)

Depreciation was charged to governmental functions as follows:

11	Instruction	$ 10,152,887
12	Instructional resources and media services	156,341
13	Curriculum and instructional staff development	35,519
23	School leadership	85,414
31	Guidance, counseling, and evaluation services	34,985
33	Health services	36,689
34	Student (pupil) transportation	435,136
35	Food service	284,673
36	Cocurricular/extracurricular activities	576,232
41	General administration	1,685
51	Plant maintenance and operations	1,045,091
52	Security and monitoring	21,281
53	Data processing services	4,887
61	Community services	199,759
	Total Depreciation Expense	$ 13,070,579

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities. The liability for the net pension liability and the net OPEB liability are liquidated by the general fund.

Governmental Activities:	Interest Rates	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due Within One Year
Bonds, notes payable:						
Series 2015	2.25 - 5.00%	$ 239,595,000	$ -	$ (3,895,000)	$ 235,700,000	$ 4,160,000
Series 2015A	2.00 - 5.00%	12,240,000	-	(1,700,000)	10,540,000	1,875,000
Series 2016	2.00 - 5.00%	66,255,000	-	(1,535,000)	64,720,000	1,610,000
Series 2019	5.00%	5,950,000	-	(1,425,000)	4,525,000	1,465,000
Direct borrowings/placements:						
Series 2013	1.70%	4,920,000	-	(615,000)	4,305,000	635,000
Less deferred amounts:						
Unamortized bond premium		28,443,092	-	(1,474,992)	26,968,100	-
		357,403,092	-	(10,644,992)	346,758,100 *	9,745,000
Other liabilities:						
Net pension liability		22,883,254	766,998	-	23,650,252	-
Net OPEB liability		27,868,529	-	(5,647,236)	22,221,293	-
		50,751,783	766,998	(5,647,236)	45,871,545	-
Total Governmental Activities		$ 408,154,875	$ 766,998	$ (16,292,228)	$ 392,629,645	$ 9,745,000
				Long-term liabilities due in more than one year	$ 382,884,645	
				***Debt associated with capital assets**	$ 346,758,100	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2021, there were no outstanding defeased bonds.

Direct Borrowing-Series 2013

The District issued $9,310,000 of Montgomery Independent School District Unlimited Tax Refunding Bonds, Series 2013, (the "Bonds") as authorized by Chapter 1207 of the Texas Education Code, as amended. The proceeds were used to refund a portion of the District's outstanding Unlimited Tax School Building Bonds, Series 2004A $5,300,000 and Unlimited Tax Refunding Bonds, Series 2004B $4,010,000 in order to lower the overall debt service requirement of the District. Annual payments of principal on the Bonds are due from February 15, 2015 through February 15, 2022 and February 15, 2024 through February 15, 2027. Semiannual interest payments on the Bonds bearing an interest rate of 1.700% are accrued from the delivery date of December 19, 2013 and on each August 15 and February 15 thereafter until maturity or earlier redemption on February 15, 2023.

The annual requirements to amortize debt issues outstanding at year end are as follows:

Fiscal Year Ending June 30	General Obligation Principal	General Obligation Interest	Direct Placement Principal	Direct Placement Interest	Total Requirements
2022	$ 9,110,000	$ 13,798,225	$ 635,000	$ 73,185	$ 23,616,410
2023	10,265,000	13,383,975	-	62,390	23,711,365
2024	9,700,000	12,941,350	895,000	62,390	23,598,740
2025	10,295,000	12,456,350	915,000	47,175	23,713,525
2026	10,750,000	11,957,250	940,000	31,620	23,678,870
2027-2031	59,080,000	51,779,150	920,000	15,640	111,794,790
2032-2036	71,670,000	38,790,200	-	-	110,460,200
2037-2041	69,060,000	22,349,750	-	-	91,409,750
2042-2046	65,555,000	6,996,000	-	-	72,551,000
	$ 315,485,000	$ 184,452,250	$ 4,305,000	$ 292,400	$ 504,534,650

D. Commitments Under Noncapitalized Leases

Commitments under operating lease (noncapitalized) agreements for facilities and equipment are subject to fiscal funding clauses and are cancellable by the District. The District is, therefore, not obligated to minimum future rental payments as of June 30, 2021. The imputed interest on the leases is not readily determinable.

Rental expenditures for the fiscal year ended June 30, 2021 amounted to $461,570.

E. Interfund Transactions

The following is a summary of the District's interfund transactions for the year:

Due to	Due From	Amount
General fund	National school breakfast and lunch program	$ 1,679,389
General fund	Custodial funds	1,030
General fund	Special revenue funds	1,330,558
Custodial funds	General fund	165,005
Debt service fund	General fund	467,946
National school breakfast and lunch program	General fund	1,149
	Total	$ 3,645,077

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

During previous years, the District participated in an interlocal agreement providing for pooled coverage of workers' compensation benefits for employees. Claims incurred by the employs of the District were handled by a third-party administrator, Claims Administrative Services (CAS), who was responsible for estimating losses to be incurred by the District and ultimately paid to the claimant. The District has accrued claims payable of $12,988 as of June 30, 2021, which includes provisions for claims reported but not reported. The provision for reported claims and claims incurred but not yet reported is determined by estimating the amount that will ultimately be paid to each claimant and is calculated and provided by the District's third-party administrator. Accrued claims payable have not been discounted to their present value as the District expects that any discount of the claims payable would not be material to the overall financial statements.

Changes in the claims liability for workers' compensation benefits for the fiscal year ended June 30, 2021 and 2020 are as follows:

	Fiscal Year	
	2021	**2020**
Claims liability at beginning of year	$ 15,439	$ 25,821
Current year claims and estimated changes	(928)	(9,671)
Claims payments	(1,523)	(711)
Claims liability at year end	$ 12,988	$ 15,439

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. Although the District does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (SB12) that provides for gradual contribution increase from the State, participating employers, and active employees to make TRS actuarially sound. This action causing TRS to be actuarially sound allowed the Legislature to approve funding for a thirteenth 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 TRS during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. SB12 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 through 2025.

Contribution Rates			
Fiscal Year	State	Public Education Employer	Active Employee
2020	7.50%	1.50%	7.70%
2021	7.50%	1.60%	7.70%
2022	7.75%	1.70%	8.00%
2023	8.00%	1.80%	8.00%
2024	8.25%	1.90%	8.25%
2025	8.25%	2.00%	8.25%

	Contribution Rates	
	2020	**2021**
Member	7.7%	7.7%
NECE (State)	7.5%	7.5%
Employers	7.5%	7.5%

	Measurement Year (2020)	Fiscal Year (2021)
Employer Contributions	$ 1,821,981	$ 1,786,011
Member Contributions	$ 4,196,252	$ 4,103,920
NECE On-Behalf Contributions	$ 2,891,499	$ 2,856,173

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

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of TRS during that fiscal year reduced by the amounts described below, which are paid by the employers.

Employers (public schools, junior colleges, other entities, or the State as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

- During a new member's first 90 days of employment.

- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source or from noneducational, and general or local funds.

- When the employing district is a public junior college or junior college district, the employer shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

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

- All public schools, charter school, and regional educational service centers must contribute 1.5 percent of the member's salary beginning in fiscal year 2020, gradually increasing to 2.0 percent in fiscal year 2025.

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2019 actuarial valuation, rolled forward to August 31, 2020, was determined using the following actuarial assumptions:

Valuation date	August 31, 2019, rolled forward to August 31, 2020
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	7.25%
Long-term expected investment rate of return	7.25%
Municipal bond rate	2.33%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Inflation	2.30%
Salary increases including inflation	3.05% to 9.05%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate

A single discount rate of 7.25% was used to measure the TPL. 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 NECE 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, TRS'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 TRS investments was applied to all periods of projected benefit payments to determine the TPL.

The long-term expected rate of return on TRS investments is 7.25%. The long-term expected rate of return on TRS 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 TRS's target asset allocation as of August 31, 2020 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2020

Asset Class	Target Allocation (1)	Long-Term Expected Geometric Real Reate of Return (2)	Expected Contributions to Long-Term Portfolio Returns (3)
Global			
U.S.	18.00%	3.90%	0.99%
Non-U.S. Developed	13.00%	5.10%	0.92%
Emerging Markets	9.00%	5.60%	0.83%
Private Equity	14.00%	6.70%	1.41%
Stable Value			
Government Bonds	16.00%	-0.70%	-0.05%
Stable Value Hedge Funds	5.00%	1.90%	0.11%
Real Return			
Real Estate	15.00%	4.60%	1.01%
Energy, National Resources, and Infrastructure	6.00%	6.00%	0.42%
Risk Parity			
Risk Parity	8.00%	3.00%	0.30%
Leverage			
Cash	2.00%	-1.50%	-0.03%
Asset Allocation Leverage	-6.00%	-1.30%	0.08%
Inflation Expectation			2.00%
Volatility Drag (3)			-0.67%
Total	100.00%	33.30%	7.32%

(1) Target allocations are based on the FY2020 policy model.
(2) Capital market assumptions come from Aon Hewitt (as of 8/31/2020).
(3) The volatility drag results from the conversation between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following table presents the net pension liability (NPL) of TRS using the discount rate of 7.25% and what the NPL would be if it was calculated using a discount rate that is 1% lower (6.25) or 1% higher (8.25%) than the current year rate:

	1% Decrease in Discount Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability	$ 36,468,265	$ 23,650,252	$ 13,235,897

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2021, the District reported a liability of $23,650,252 for its proportionate share of the TRS's NPL. This liability reflects a reduction for state pension support provided to the District. The amounts recognized by the District as its proportionate share of the NPL, the related state support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$	23,650,252
State's proportionate share that is associated with the District		37,533,213
Total	$	61,183,465

The NPL was measured as of August 31, 2019 and rolled forward to August 31, 2020 and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2019 through August 31, 2020.

At June 30, 2021, the District's proportion of the collective NPL was 0.04416%, which was an increase of 0.00014% from its proportion measured as of June 30, 2020.

Changes Since the Prior Actuarial Valuation

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

For the year ended June 30, 2021, the District recognized pension expense of $4,514,412 and revenue of $4,514,412 for support provided by the State.

At June 30, 2021, the District reported its proportionate share of 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
Difference between expected and actual economic experience	$ 43,183	$ 660,016
Changes in actuarial assumptions	5,487,700	2,333,332
Difference between projected and actual investment earnings	478,779	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,234,425	-
Contributions paid to TRS subsequent to the measurement date	1,498,216	-
Total	$ 9,742,303	$ 2,993,348

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:

Fiscal Year Ended June 30	Pension Expense
2022	$ 1,607,972
2023	1,696,425
2024	1,513,616
2025	604,752
2026	(169,490)
Thereafter	(2,536)
Total	$ 5,250,739

D. Defined Other Postemployment Benefit Plan

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined benefit OPEB plan that has a special funding situation. TRS-Care is administered through a trust by TRS Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed information about TRS-Care's fiduciary net position is available in a separately issued TRS Annual Comprehensive Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at http://www.trs.texas.gov/TRS%20Documents/cafr2020.pdf; 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 TRS-Care as of August 31, 2020 are as follows:

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 a percentage of total OPEB liability	4.99%

Benefits Provided

TRS-Care provides a basic health insurance coverage to retirees from public schools and charter schools, regional education service centers, and other educational districts who are members of TRS. 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 TRS. There are no automatic postemployment 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 TRS-Care are established in state statute by the Texas Legislature and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care 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 does not have the authority to set or amend contribution rates.

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

Contribution Rates

	Fiscal Year	
	2020	2021
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement Year (2020)		Fiscal Year (2021)	
District contributions	$	444,297	$	428,375
Member contributions	$	177,115	$	173,217
NECE on-behalf contributions	$	597,020	$	666,221

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

TRS-Care received supplemental appropriations from the State as the NECE in the amount of $230.8 million in fiscal year 2020 to maintain premiums and benefit levels in the 2020-2021 biennium.

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2019. Update 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 TRS pension plan, except that the OPEB valuation is more complex. All of 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:

1. Rates of Mortality	5. General Inflation
2. Rates of Retirement	6. Wage Inflation
3. Rates of Termination	7. Expected Payroll Growth
4. Rates of Disability Incidence	

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

The initial medical trend rates were 9.00% for Medicare retirees and 7.30% for non-Medicare retirees. There was an initial prescription drug trend rate of 9.00% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.

Additional actuarial methods and assumptions are as follows:

Valuation date	8/31/2019 rolled forward to 8/31/2020
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.
Projected salary increases	3.05% to 9.05%, including inflation
Election rates	Normal retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc postemployment benefit changes	None

Discount Rate

A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of 0.30% in the discount rate since the previous year. Because TRS-Care 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 NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% lower than and 1% higher than the discount rate that was used (2.33%) in measuring the net OPEB liability:

	1% Decrease in Discount Rate (1.33%)	Current Single Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
District's proportionate share of net OPEB liability	$ 26,665,501	$ 22,221,293	$ 18,771,007

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than or 1% higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	$ 18,151,949	$ 22,221,293	$ 27,641,084

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

At June 30, 2021, the District reported a liability of $22,221,293 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$ 22,221,293
State's proportionate share that is associated with the District	29,860,091
Total	$ 52,081,384

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 TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2019 through August 31, 2020.

At June 30, 2021, the employer's proportion of the collective net OPEB liability was 0.05845%, compared to 0.05893% as of June 30, 2020.

Changes Since the Prior Actuarial Valuation

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

- The discount rate was changed from 2.63% as of August 31, 2019 to 2.33% as of August 31, 2020. This change increased the total OPEB liability.
- The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. This change lowered the total OPEB liability.
- The ultimate health care trend rate assumption was lowered from 4.50 percent to 4.25 percent as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the total OPEB liability.

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

For the year ended June 30, 2021, the District recognized OPEB expense of $207,337 and revenue of $207,337 for support provided by the State.

At June 30, 2021, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,163,498	$ 10,169,600
Changes in actuarial assumptions	1,370,592	6,102,082
Differences between projected and actual investment earnings	7,222	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	3,151,353	265,802
Contributions paid to TRS subsequent to the measurement date	358,014	-
Total	$ 6,050,679	$ 16,537,484

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:

Fiscal Year Ended June 30	Expense Amount
2022	$ (1,839,845)
2023	(1,840,810)
2024	(1,841,363)
2025	(1,841,211)
2026	(1,247,672)
Thereafter	(2,233,918)
	$ (10,844,819)

Medicare Part D Subsidies

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 TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended June 30, 2021, 2020, and 2019, the subsidy payments received by TRS-Care on behalf of the District were $238,377, $230,588, and $185,116, respectively.

E. Workers' Compensation Pool

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

The Fund and its members are protected against higher-than-expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of $2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of June 30, 2020, the Fund carries a discounted reserve of $44,135,645 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended June 30, 2021, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

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

F. Unemployment Compensation

During the year ended June 30, 2021, the District met its statutory unemployment compensation obligations by participating as a self-funded member of 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 and Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

As a self-funded member of the TASB Risk Management Fund, the District is solely responsible for all unemployment compensation claims costs, both reported and unreported. The Fund provides administrative services to its self-funded members including claims administration and customer service.

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

G. Auto, Liability, and/or Property Programs

During the year ended June 30, 2021, the District participated in the following TASB Risk Management (the "Fund") programs:

Auto liability
Auto physical damage
Privacy and information security
Property
School liability

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute interlocal 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 funds those reserves. For the year ended June 31, 2021, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

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

H. Employee Health Care Coverage

During the year ended June 30, 2021, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of $370 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2021 and terms of coverage and premiums costs are included in the contractual provisions.

I. Shared Services Arrangement

The District participates in a shared services arrangement (SSA) for the improvement of the education of limited English proficient children funded under Title III, Part A, English Language Acquisition. The District neither has a joint ownership interest in capital assets purchased by the fiscal agent, Education Service Center – Region VI, nor does the District have an equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared arrangement. Region VI is reporting $9,005 as expenditures incurred on behalf of the District.

J. Restatement of Net Position

During the fiscal year, the District implemented GASB Statement No. 84, *Fiduciary Activities,* and restated the net position related to the custodial funds for the implementation of this standard as follows:

	Custodial Funds
Beginning net position	$ -
Custodial fund adjustment	854,761
Restated beginning net position	$ 854,761

REQUIRED SUPPLEMENTARY INFORMATION

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Montgomery Independent School District

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND - EXHIBIT G-1

For the Year Ended June 30, 2021

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget Positive (Negative)
	Revenues				
5700	Local and intermediate sources	$ 64,891,000	$ 68,586,000	$ 66,119,213	$ (2,466,787)
5800	State program revenues	10,532,000	10,532,000	12,018,050	1,486,050
5900	Federal program revenues	730,000	930,000	3,747,027	2,817,027
5020	**Total Revenues**	76,153,000	80,048,000	81,884,290	1,836,290
	Expenditures				
	Current:				
0011	Instruction	47,163,740	47,057,306	45,605,389	1,451,917
0012	Instructional resources and				
0012	media services	767,582	755,582	684,169	71,413
0013	Curriculum and instructional staff				
0013	development	17,000	37,000	1,337	35,663
0021	Instructional leadership	872,710	825,900	744,299	81,601
0023	School leadership	4,279,722	4,342,222	4,188,269	153,953
0031	Guidance, counseling, and				
0031	evaluation services	2,187,902	2,132,418	2,098,687	33,731
0033	Health services	721,687	771,687	731,751	39,936
0034	Student (pupil) transportation	4,257,152	4,107,152	3,781,309	325,843
0036	Extracurricular activities	2,119,339	2,085,639	2,069,663	15,976
0041	General administration	2,165,814	2,399,314	2,370,346	28,968
0051	Plant maintenance and operations	9,431,634	11,060,384	9,869,592	1,190,792
0052	Security and monitoring services	1,080,634	977,634	872,796	104,838
0053	Data processing services	1,865,824	2,489,574	2,388,234	101,340
0061	Community services	175,000	200,000	142,591	57,409
	Intergovernmental:				
0095	Payments to JJAEP	25,000	25,000	-	25,000
0099	Other intergovernmental charges	700,000	750,000	670,453	79,547
6030	**Total Expenditures**	77,830,740	80,016,812	76,218,885	3,797,927
1100	**Excess of Revenues**				
1100	**Over (Under) Expenditures**	(1,677,740)	31,188	5,665,405	5,634,217
	Other Financing Sources (Uses)				
7912	Sale of real and personal property	-	-	749,515	749,515
7080	**Total Other Financing Sources**	-	-	749,515	749,515
1200	**Net Change in Fund Balance**	(1,677,740)	31,188	6,414,920	6,383,732
0100	Beginning fund balance	19,700,946	19,700,946	19,700,946	-
3000	**Ending Fund Balance**	$ 18,023,206	$ 19,732,134	$ 26,115,866	$ 6,383,732

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Montgomery Independent School District

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) EXHIBIT G-2

For the Year Ended June 30, 2021

	Measurement Year*			
	2020	**2019**	**2018**	**2017**
District's proportion of the net pension liability	0.0441582%	0.0440200%	0.0416800%	0.0395100%
District's proportionate share of the net pension liability	$ 23,650,252	$ 22,883,254	$ 22,942,063	$ 12,633,470
State's proportionate share of the net pension liability associated with the District	37,533,213	37,703,663	38,912,040	23,248,745
Total	$ 61,183,465	$ 60,586,917	$ 61,854,103	$ 35,882,215
District's covered payroll**	$ 54,496,782	$ 51,999,741	$ 47,815,102	$ 45,766,172
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	43.40%	44.01%	47.98%	27.60%
Plan fiduciary net position as a percentage of the total pension liability	75.54%	75.24%	73.74%	82.17%

* Only seven years' worth of information is currently available.

Notes to Required Supplementary Information:

1. *Changes in Assumptions:* There were no changes in assumption or other inputs that affected measurement of the total pension (TPL) liability since the prior measurement period.
2. *Changes in Benefits:* There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

Measurement Year*		
2016	**2015**	**2014**
0.0374600%	0.0369800%	0.0190700%
$ 14,156,647	$ 13,072,998	$ 5,092,605
27,582,468	25,677,769	21,904,380
$ 41,739,115	$ 38,750,767	$ 26,996,985
$ 43,215,113	$ 40,226,847	$ 37,167,576
32.76%	32.50%	13.70%
78.00%	78.43%	83.25%

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) EXHIBIT G-3

For the Year Ended June 30, 2021

	Fiscal Year*			
	2021	**2020**	**2019**	**2018**
Contractually required contribution	$ 1,786,011	$ 1,780,419	$ 1,296,584	$ 1,401,852
Contributions in relations to the contractually required contribution	1,786,011	1,780,419	1,296,584	1,401,852
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 53,297,662	$ 54,101,468	$ 43,489,512	$ 47,815,102
Contributions as a percentage of covered payroll	3.35%	3.29%	2.98%	2.93%

* Only seven years' worth of information is currently available.

Fiscal Year*		
2017	2016	2015
$ 1,295,830	$ 1,190,289	$ 1,087,337
1,295,830	1,190,289	1,087,337
$ -	$ -	$ -
$ 45,766,172	$ 43,215,113	$ 40,226,847
2.83%	2.75%	2.70%

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY, TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ("TRS-CARE") EXHIBIT G-4

For the Year Ended June 30, 2021

	Measurement Year*			
	2020	**2019**	**2018**	**2017**
District's proportion of the collective net OPEB liability	0.0584548%	0.0589300%	0.0553400%	0.0519100%
District's proportionate share of the collective net OPEB liability	$ 22,221,293	$ 27,868,529	$ 27,633,730	$ 22,573,656
State's proportionate share of the collective net OPEB liability associated with the District	29,860,091	37,031,039	42,093,469	37,031,336
Total	$ 52,081,384	$ 64,899,568	$ 69,727,199	$ 59,604,992
District's covered payroll**	$ 54,496,782	$ 51,999,741	$ 47,815,102	$ 45,766,172
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	40.78%	53.59%	57.79%	49.32%
Plan fiduciary net position as a percentage of the total OPEB liability	4.99%	2.66%	1.57%	0.91%

* Only four years' worth of information is currently available.

Notes to Required Supplementary Information:

1. *Changes in Assumptions:* There were changes in assumption that affected measurement of the total OPEB liability since the prior measurement period:

The discount rate was changed from 2.63% as of August 31, 2019 to 2.33% as of August 31, 2020. This change increased the total OPEB liability.

The participation rate for post-65 retirees was lowered from 50% to 40%. This change lowered the total OPEB liability.

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

2. *Changes in Benefits:* There were no changes in benefit terms since the prior measurement date.

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Montgomery Independent School District

SCHEDULE OF CONTRIBUTIONS, TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM ("TRS-CARE") EXHIBIT G-5

For the Year Ended June 30, 2021

	Fiscal Year*			
	2021	**2020**	**2019**	**2018**
Statutorily required contributions	$ 428,375	$ 433,323	$ 350,765	$ 381,774
Contributions in relations to the statutorily required contributions	428,375	433,323	350,765	381,774
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 53,297,662	$ 54,101,468	$ 43,489,512	$ 47,815,102
Contributions as a percentage of covered payroll	0.80%	0.80%	0.81%	0.80%

* Only four years' worth of information is currently available.

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OTHER SUPPLEMENTARY INFORMATION

Montgomery Independent School District

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1

June 30, 2021

Data Control Codes		211 ESEA Title 1 Part A	224 IDEA B Formula	225 IDEA B Preschool	226 IDEA B Discretionary
	Assets				
1110	Cash and cash equivalents	$ 21,475	$ 14,769	$ -	$ -
1240	Due from other governments	-	287,375	6,063	24,858
1000	**Total Assets**	$ 21,475	$ 302,144	$ 6,063	$ 24,858
	Liabilities				
2110	Accounts payable	$ -	$ -	$ -	$ -
2170	Due to other funds	677	302,144	6,063	24,858
2300	Unearned revenue	20,798	-	-	-
2000	**Total Liabilities**	21,475	302,144	6,063	24,858
	Fund Balances				
	Restricted:				
3450	Federal/state grant restrictions	-	-	-	-
3470	Construction	-	-	-	-
3490	Other restrictions of fund balance	-	-	-	-
3000	**Total Fund Balances**	-	-	-	-
4000	**Total Liabilities and Fund Balances**	$ 21,475	$ 302,144	$ 6,063	$ 24,858

244 Career and Technical Basic Grant	255 ESEA Title II Part A	263 Title III Part A English Language	266 ESSER	277 Coronavirus Relief	289 Summer School LEP
$ -	$ 8,576	$ -	$ -	$ 532,202	$ -
17,049	-	6,240	451,100	-	-
$ 17,049	$ 8,576	$ 6,240	$ 451,100	$ 532,202	$ -
$ 10,877	$ -	$ -	$ -	$ -	$ -
6,172	137	6,240	451,100	532,202	-
-	8,439	-	-	-	-
17,049	8,576	6,240	451,100	532,202	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 17,049	$ 8,576	$ 6,240	$ 451,100	$ 532,202	$ -

Montgomery Independent School District

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1

June 30, 2021

Data Control Codes		383 Professional Development	385 State Supplemental Visually Impaired	410 State Textbook	429 State Funded Special Revenue
	Assets				
1110	Cash and cash equivalents	$ 409	$ -	$ 40,186	$ -
1240	Due from other governments	-	1,343	-	-
1000	**Total Assets**	$ 409	$ 1,343	$ 40,186	$ -
	Liabilities				
2110	Accounts payable	$ -	$ -	$ -	$ -
2170	Due to other funds	-	965	-	-
2300	Unearned revenue	-	-	1,925	-
2000	**Total Liabilities**	-	965	1,925	-
	Fund Balances				
	Restricted:				
3450	Federal/state funds grant restrictions	409	378	38,261	-
3470	Construction	-	-	-	-
3490	Other restrictions of fund balance	-	-	-	-
3000	**Total Fund Balances**	409	378	38,261	-
4000	**Total Liabilities and Fund Balances**	$ 409	$ 1,343	$ 40,186	$ -

461 Campus Activity	498 MISD Education Foundation	699 Capital Projects	Total Nonmajor Governmental Funds
$ 596,184	$ 3,349	$ 2,387,458	$ 3,604,608
-	-	-	794,028
$ 596,184	$ 3,349	$ 2,387,458	$ 4,398,636
$ 16,356	$ -	$ -	$ 27,233
-	-	-	1,330,558
-	-	-	31,162
16,356	-	-	1,388,953
-	-	-	39,048
-	-	2,387,458	2,387,458
579,828	3,349	-	583,177
579,828	3,349	2,387,458	3,009,683
$ 596,184	$ 3,349	$ 2,387,458	$ 4,398,636

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2

For the Year Ended June 30, 2021

Data Control Codes		211 ESEA Title 1 Part A	224 IDEA B Formula	225 IDEA B Preschool	226 IDEA B Discretionary
	Revenues				
5700	Local, intermediate, and out-of-state	$ -	$ -	$ -	$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	533,331	1,311,291	6,063	24,858
5020	**Total Revenues**	533,331	1,311,291	6,063	24,858
	Expenditures				
	Current:				
0011	Instruction	529,642	813,945	6,063	24,858
0013	Curriculum and instructional				
0013	staff development	-	-	-	-
0021	Instructional leadership	3,689	532	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	496,814	-	-
0034	Student transportation	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0053	Data processing services	-	-	-	-
	Capital outlay:				
0081	Facilities acquisition and				
0081	construction	-	-	-	-
6030	**Total Expenditures**	533,331	1,311,291	6,063	24,858
1200	**Net Change in Fund Balances**	-	-	-	-
0100	Beginning fund balances	-	-	-	-
3000	**Ending Fund Balances**	$ -	$ -	$ -	$ -

244 Career and Technical Basic Grant	255 ESEA Title II Part A	263 Title III Part A English Language	266 ESSER	277 Coronavirus Relief	289 Summer School LEP
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
61,808	99,050	6,440	451,100	773,487	8,143
61,808	99,050	6,440	451,100	773,487	8,143
61,808	95,043	6,440	451,100	270,031	8,143
-	4,007	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	20,886	-
-	-	-	-	482,570	-
-	-	-	-	-	-
61,808	99,050	6,440	451,100	773,487	8,143
-	-	-	-	-	-
-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2

For the Year Ended June 30, 2021

Data Control Codes		383 Professional Development	385 State Supplemental Visually Impaired	410 State Textbook	429 State Funded Special Revenue
	Revenues				
5700	Local, intermediate, and out-of-state	$ -	$ -	$ 419	$ -
5800	State program revenues	-	9,512	648,352	60,304
5900	Federal program revenues	-	-	-	-
5020	**Total Revenues**	-	9,512	648,771	60,304
	Expenditures				
	Current:				
0011	Instruction	-	9,512	645,852	6,930
0013	Curriculum and instructional				
0013	staff development	-	-	2,500	-
0021	Instructional leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	59,925
0034	Student transportation	-	-	-	-
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0053	Data processing services	-	-	-	-
	Capital outlay:				
0081	Facilities acquisition and				
0081	construction	-	-	-	-
6030	**Total Expenditures**	-	9,512	648,352	66,855
1200	**Net Change in Fund Balances**	-	-	419	(6,551)
0100	Beginning fund balances	409	378	37,842	6,551
3000	**Ending Fund Balances**	$ 409	$ 378	$ 38,261	$ -

461	498	699	
Campus Activity	MISD Education Foundation	Capital Projects	Total Nonmajor Governmental Funds
$ 329,101	$ 31,306	$ 2,765	$ 363,591
-	-	-	718,168
-	-	-	3,275,571
329,101	31,306	2,765	4,357,330
-	30,512	-	2,959,879
-	-	-	6,507
-	-	-	4,221
-	-	-	556,739
-	-	194,846	194,846
304,624	-	-	304,624
-	-	-	20,886
-	-	-	482,570
-	-	468,267	468,267
304,624	30,512	663,113	4,998,539
24,477	794	(660,348)	(641,209)
555,351	2,555	3,047,806	3,650,892
$ 579,828	$ 3,349	$ 2,387,458	$ 3,009,683

Montgomery Independent School District

COMBINING STATEMENT OF FIDUCIARY NET POSITION

PRIVATE-PURPOSE TRUST FUNDS - EXHIBIT H-3

June 30, 2021

Data Control Codes		806 Kiwians Foundation School	808 Sustaining Scholarship	809 Water Scholarship	810 Randall L Rod Scholarship
	Assets				
1110	Cash and cash equivalents	$ 40,262	$ 1,233,768	$ 6,810	$ 46,370
1000	**Total Assets**	40,262	1,233,768	6,810	46,370
	Liabilities				
2000	**Total Liabilities**	-	-	-	-
	Net Position				
3800	Held in trust	40,262	1,233,768	6,810	46,370
3000	**Total Net Position**	$ 40,262	$ 1,233,768	$ 6,810	$ 46,370

820 MISD Performing Arts	Total Private-Purpose Trust Funds
$ 3,711	$ 1,330,921
3,711	1,330,921
-	-
3,711	1,330,921
$ 3,711	$ 1,330,921

Montgomery Independent School District

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FIDUCIARY NET POSITION

PRIVATE-PURPOSE TRUST FUNDS - EXHIBIT H-4

For the Year Ended June 30, 2021

	806 Kiwians Foundation School	808 Sustaining Scholarship	809 Water Scholarship	810 Randall L Rod Scholarship
Additions				
Investment income	$ -	$ 3,389	$ -	$ 125
Donations	-	90,667	-	-
Total Additions	-	94,056	-	125
Deductions				
Scholarship awards	500	59,000	-	-
Total Deductions	500	59,000	-	-
Change in Net Position	(500)	35,056	-	125
Beginning net position	40,762	1,198,712	6,810	46,245
Ending Net Position	$ 40,262	$ 1,233,768	$ 6,810	$ 46,370

820 MISD Performing Arts	Total Private-Purpose Trust Funds
$ -	$ 3,514
2,900	93,567
2,900	97,081
-	59,500
-	59,500
2,900	37,581
811	1,293,340
$ 3,711	$ 1,330,921

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

CUSTODIAL FUNDS - EXHIBIT H-5

June 30, 2021

Data Control Codes		865 Student Activity Account	891 Athletics Student Activity	892 MHS Student Activity	894 LCHS Student Activity
	Assets				
1110	Cash and cash equivalents	$ 110,362	$ 300,691	$ 167,971	$ 147,735
1260	Due from other funds	3,100	26,690	62,807	72,408
1000	**Total Assets**	113,462	327,381	230,778	220,143
	Liabilities				
	Current liabilities:				
2110	Accounts payable	-	5,251	4,758	-
2170	Due to other funds	1,030	-	-	-
2000	**Total Liabilities**	1,030	5,251	4,758	-
	Net Position				
3000	Held in trust	112,432	322,130	226,020	220,143
3600	**Total Net Position**	$ 112,432	$ 322,130	$ 226,020	$ 220,143

Total Custodial Funds
$ 726,759
165,005
891,764
10,009
1,030
11,039
880,725
$ 880,725

Montgomery Independent School District

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

CUSTODIAL FUNDS - EXHIBIT H-6

For the Year Ended June 30, 2021

	865 Student Activity Account	891 Athletics Student Activity	892 MHS Student Activity	894 LCHS Student Activity
Additions				
Investment income	$ 534	$ 949	$ -	$ 353
Fundraising	190,169	489,395	341,860	283,629
Athletic activities	-	-	1,024	-
Donations	2,795	-	18,412	1,024
Other	5,688	-	-	-
Total Additions	199,186	490,344	361,296	285,006
Deductions				
Dance	34,140	-	-	64,184
Athletics	58,250	506,057	-	-
Band	39,721	-	20,684	11,640
Cheer	20,586	-	44,488	22,040
Choir	36,874	-	31,794	14,421
FFA	-	-	32,440	25,518
Fishing team	-	-	25,360	-
Junior class	-	-	33,036	22,142
Student council	-	-	19,853	17,151
Theatre	5,495	-	23,460	3,761
Yearbook	-	-	8,162	30,001
Other expenses	8,701	-	106,349	43,560
Total Deductions	203,767	506,057	345,626	254,418
Change in Net Position	(4,581)	(15,713)	15,670	30,588
Beginning net position	117,013	337,843	210,350	189,555
Ending Net Position	$ 112,432	$ 322,130	$ 226,020	$ 220,143

Total Custodial Funds
$ 1,836
1,305,053
1,024
22,231
5,688
1,335,832
98,324
564,307
72,045
87,114
83,089
57,958
25,360
55,178
37,004
32,716
38,163
158,610
1,309,868
25,964
854,761
$ 880,725

Montgomery Independent School District

SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1

For the Year Ended June 30, 2021

	1	2	3
	Tax Rates		Net Assessed/ Appraised Value For School
Last Ten Years	**Maintenance**	**Debt Service**	**Tax Purposes**
2012 and prior	Various	Various	Various
2013	$ 1.0400	$ 0.3000	$ 3,957,459,328
2014	$ 1.0400	$ 0.3000	$ 4,163,024,367
2015	$ 1.0400	$ 0.3000	$ 4,600,173,292
2016	$ 1.0400	$ 0.3000	$ 5,065,449,062
2017	$ 1.0400	$ 0.3300	$ 5,601,562,063
2018	$ 1.0400	$ 0.3300	$ 5,899,730,718
2019	$ 1.0400	$ 0.3300	$ 6,126,998,596
2020	$ 0.9700	$ 0.3375	$ 6,227,554,646
2021	$ 0.9423	$ 0.3375	$ 6,629,915,035
1000 **Totals**			

10 Beginning Balance 7/1/20	20 Current Year's Total Levy	31 Maintenance Total Collected	32 Debt Service Total Collected	40 Entire Year's Adjustments	50 Ending Balance 6/30/21
$ 347,425	$ -	$ 49,486	$ 24,433	$ 31,108	$ 242,398
70,952	-	16,198	4,672	(1,496)	51,578
83,839	-	17,459	5,036	(1,154)	62,498
102,982	-	21,263	6,134	(925)	76,510
123,273	-	16,414	4,735	7,495	94,629
184,821	-	31,325	9,940	3,954	139,602
259,482	-	63,056	20,008	(2,013)	178,431
445,836	-	116,865	37,082	35,619	256,270
1,855,748	-	919,928	320,078	124,712	491,030
-	84,849,653	61,308,910	21,932,763	(47,384)	1,655,364
$ 3,474,358	$ 84,849,653	$ 62,560,904	$ 22,364,881	$ 149,916	$ 3,248,310

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-2

For the Year Ended June 30, 2021

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget Positive (Negative)
	Revenues				
5700	Local and intermediate sources	$ 2,750,327	$ 2,750,327	$ 2,180,748	$ (569,579)
5800	State program revenues	135,800	135,800	164,105	28,305
5900	Federal program revenues	1,819,477	1,819,477	1,564,614	(254,863)
5020	**Total Revenues**	4,705,604	4,705,604	3,909,467	(796,137)
	Expenditures				
	Current:				
0035	Food services	4,705,604	4,705,604	3,884,957	820,647
6030	**Total Expenditures**	4,705,604	4,705,604	3,884,957	820,647
1200	**Net Change in Fund Balance**	-	-	24,510	24,510
0100	Beginning fund balance	1,680,433	1,680,433	1,680,433	-
3000	**Ending Fund Balance**	$ 1,680,433	$ 1,680,433	$ 1,704,943	$ 24,510

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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Montgomery Independent School District

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-3

For the Year Ended June 30, 2021

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance With Final Budget Positive (Negative)
	Revenues				
5700	Local and intermediate sources	$ 22,500,000	$ 22,500,000	$ 22,576,196	$ 76,196
5800	State program revenues	425,000	425,000	429,687	4,687
5020	**Total Revenues**	22,925,000	22,925,000	23,005,883	80,883
	Expenditures				
	Debt service:				
0071	Principal on long-term debt	23,554,615	9,857,750	9,170,000	687,750
0072	Interest on long-term debt	-	14,309,615	14,309,615	-
	Intergovernmental:				
0099	Other governmental charges	-	2,250	2,250	-
6030	**Total Expenditures**	23,554,615	24,169,615	23,481,865	687,750
1200	**Net Change in Fund Balance**	(629,615)	(1,244,615)	(475,982)	768,633
0100	Beginning fund balance	9,308,689	9,308,689	9,308,689	-
3000	**Ending Fund Balance**	$ 8,679,074	$ 8,064,074	$ 8,832,707	$ 768,633

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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MONTGOMERY INDEPENDENT SCHOOL DISTRICT

USE OF FUNDS REPORT

FOR SELECT STATE ALLOTMENT PROGRAMS - EXHIBIT J-4

For the Year Ended June 30, 2021

Data Control Codes		Responses
	Section A: Compensatory Education Programs	
AP1	Did your District expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the District have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	$ 3,370,705
AP4	List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	$ 1,869,186
	Section B: Billingual Education Programs	
AP5	Did your District expend any bilingual education program state allotment funds during the District's fiscal year?	Yes
AP6	Does the District have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the District's fiscal year.	$ 186,979
AP8	List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35)	$ 203,719

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FEDERAL AWARDS AND COMPLIANCE SECTION

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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 of
Montgomery Independent School District:

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 Montgomery Independent School District (the "District"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2021.

<u>Internal Control Over Financial Reporting</u>

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 identify certain deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021.001, 2021.002, 2021.003, and 2021.004 that we consider to be significant deficiencies.

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Compliance and Other Matters

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

District's Response to 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
December 10, 2021

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 of
Montgomery Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Montgomery 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 June 30, 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.

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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 certain 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.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
December 10, 2021

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Material Weakness:

2020.001: FINANCIAL REPORTING

Condition

The financial information for the year ended June 30, 2020 included material errors that were identified, and corrected, during our audit. Specifically, we identified the following material errors (which have been corrected):

- *Series 2019 Refunding Bond Issuance*: The District's records did not reflect the proceeds from issuance (approximately \$6.6 million, including issuance premium) nor the payment to the refunding bonds escrow agent (approximately \$6.5 million). These are noncash proceeds and payments, for which recognition is required by GASB standards. Other noncash payments, including issuance costs, were also not recognized in the District's records.

  Upon examination of the District's records and the related transactional documents, we also identified an overpayment of issuance costs by the District amounting to \$28,404. We brought this to the attention of the District's management and action has been taken to recover this money.

- *Special Revenue Funds:* During the course of our audit procedures, we noted material errors in the special revenue funds resulting from incomplete year end accruals and closing accounting adjustments.

Our audit procedures identified a number of additional errors of smaller magnitude which management also elected to correct. Because these errors were not prevented, or detected and correctly timely, there is an indication that the monitoring and financial closing internal controls of the District were not effective during fiscal year 2020.

Status of Prior Year Finding

Partially corrected. The Series 2019 refunding bond issuance portion of the prior year finding is no longer applicable. The special revenue funds and financial reporting portion of the prior year finding was partially corrected as this finding was reduced from a material weakness to a significant deficiency. See current year finding 2021.001.

Significant Deficiency:

2020.001: FOUNDATION SCHOOL PROGRAM ALLOTMENT MONITORING

Criteria

Texas Education Code Title 2, Public Education; Subtitle I, School Finance and Fiscal Management; Chapter 48, Foundation School Program, establishes the purposes of the Texas Foundation School Program allotments and the related expenditure requirements. Section 48.106 requires that at least 55 percent of the career and technology education allotment must be used in providing career and technology education programs in grades 7 through 12. The Texas Commissioner of Education administers the Foundation School Program through the Texas Education Agency (TEA), and the District's management is responsible for establishing internal controls to monitor compliance with the program requirements.

Status of Prior Year Finding

Resolved.

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of District.

2. Material weaknesses in internal control were not disclosed by the audit of the basic financial statements. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements.

3. No instances of noncompliance material to the financial statements were disclosed during the audit.

4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.

5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.

6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.

7. The programs included as major programs are:

AL Numbers	Name of Federal Program
10.553 & 10.555	Child Nutrition Cluster
21.019	Coronavirus Relief Fund
84.425D	Elementary and Secondary School Emergency Relief Fund

8. The threshold for distinguishing Type A and B programs was $750,000.

9. The District did not qualify as a low-risk auditee.

B. FINDINGS –BASIC FINANCIAL STATEMENT AUDIT

Significant Deficiencies:

2021.001 MONTH-END CLOSING PROCEDURES

Criteria

The District should ensure that there are formal procedures in place to reconcile balance sheet and income statement accounts to subsidiary ledgers and other detailed applicable reports on a monthly basis.

Condition

It appeared that the District lacked a formal process for closing the books at the end of each month. Multiple adjustments were required at year end during the audit process to correct general ledger account balances.

Effect

The lack of consistent monthly procedures could lead to misstated account balances.

Cause

The District did not have in place formal month-end procedures to reconcile balance sheet and income statement accounts to subsidiary ledgers and other detailed applicable reports on a consistent basis.

Recommendation

The District should establish formal month-end closing procedures in which management reviews and reconciles all detailed subsidiary ledgers to the general ledger accounts.

2021.002 BANK RECONCILIATIONS

Criteria

As a function of internal controls over cash, the District should ensure that timely and accurate bank reconciliations are performed and reviewed monthly.

Condition

As of the start of the audit in October 2021, the District's bank reconciliations were only completed up to the month of April 2021.

Effect

Lack of adequate internal controls could increase the risk of not detecting the misappropriation of assets in a timely manner or a misstatement to the financial statements if an error or oversight occurred.

Cause

The District personnel did not perform bank reconciliations from May 2021 through the start of the audit in October 2021.

Recommendation

Procedures should be established for the timely completion of bank reconciliations and supervisor approval of the reconciliations.

2021.003 RECORDING TRANSACTIONS TO THE GENERAL LEDGER

Criteria

The District should have controls to ensure the accuracy and completeness of its financial records.

Condition

During the process of performing bank reconciliations after year end, the District concluded that numerous transactions had been omitted and/or recorded incorrectly.

Effect

Interim financial statements were misstated.

Cause

The District's late completion of bank reconciliations and other month-end close out processes resulted in the late discovery of numerous transactions that had been omitted and/or recorded incorrectly, of which some likely could have been avoided through a more timely discovery of the underlying cause.

Recommendation

Procedures should be established for the timely completion of bank reconciliations and following up on transactions that were omitted and/or incorrectly recorded.

2021.004 RESEARCH DISCREPANCIES

Criteria

The District should have controls to ensure and the accuracy and completeness of its financial records.

Condition

The District did not research the cause of discrepancies and identify new procedures to prevent future occurrences or determine how they should be corrected in a timely manner.

Effect

The District is unable to prevent future occurrences and make accurate corrections if the cause is unknown.

Cause

The discovery of discrepancies after year end close did not provide personnel sufficient time to research items prior to the annual report filing deadline.

Recommendation

The District should research the cause of discrepancies immediately and make the appropriate adjustments to the general ledger in a timely manner. In addition, The District should establish procedures to prevent any future occurrences.

C. FINDINGS – FEDERAL AWARDS AUDIT

None Noted

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Corrective Action Plan

Finding 2021.001

Contact person: Kris Lynn, Assistant Superintendent of Finance & Operations

Corrective action planned: Management concurs with the finding. Management will be actively engaged in implementing additional controls and modifying procedures to ensure the matter is addressed immediately.

Anticipated completion date: February 2022

Finding 2021.002

Contact person: Kris Lynn, Assistant Superintendent of Finance & Operations

Corrective action planned: Management concurs with the finding. Management will be actively engaged in implementing additional controls, reviewing procedures and exercising additional oversight to ensure the matter is addressed immediately.

Anticipated completion date: February 2022

Finding 2021.003

Contact person: Kris Lynn, Assistant Superintendent of Finance & Operations

Corrective action planned: Management concurs with the finding. Management will be actively engaged in implementing additional controls, reviewing procedures, and will seek out additional professional development opportunities for staff to increase knowledge pertaining to proper recording of transactions to the General Ledger.

Anticipated completion date: Ongoing through end of fiscal year

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Corrective Action Plan - continued

Finding 2021.004

Contact person: Kris Lynn, Assistant Superintendent of Finance & Operations

Corrective action planned: Management concurs with the finding. Management will be actively engaged in implementing additional controls to ensure this issue is addressed immediately.

Anticipated completion date: April 2022

Kris Lynn
Assistant Superintendent of Finance & Operations

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1

For the Year Ended June 30, 2021

(1) Federal Grantor/Pass Through Grantor/Program or Cluster Title	(2) Federal AL Number	(2A) Entity Identifying Number		(3) Federal Expenditures
U.S. DEPARTMENT OF TREASURY				
Passed Through Texas Division of Emergency Management				
COVID-19 Coronavirus Relief Fund (CRF)	21.019	2020-CF-21019	$	290,917
Passed Through State Department of Education				
COVID-19 Coronavirus Relief Fund (CRF) - Operation Connectivity	21.019	52202002		241,285
Passed Through Montgomery County				
COVID-19 Coronavirus Relief Fund (CRF) - SAFEREOPEN	21.019	N/A		2,680,800
COVID-19 Coronavirus Relief Fund (CRF) - Operation Connectivity	21.019	N/A		241,285
TOTAL U.S. DEPARTMENT OF TREASURY				3,454,287
U.S. DEPARTMENT OF EDUCATION				
Passed Through State Department of Education				
Title I, Part A Improving Basic Programs	84.010A	20610101170903		178,860
Title I, Part A Improving Basic Programs	84.010A	21610101170903		354,471
Carl D. Perkins Basic Formula Grant	84.048A	21420006170903		61,808
Title V, Part B, Subpart 2 - Rural and Low-Income Schools	84.358B	20694501170903		40,002
Title V, Part B, Subpart 2 - Rural and Low-Income Schools	84.358B	21694501170903		59,048
COVID-19 Education Stabilization Fund (ESSER)	84.425D	20521001170903		451,100
Title IV, Part A, Subpart I	84.424A	21680101170903		8,143
Special Education Cluster (IDEA) Cluster:				
IDEA B, Formula Grant*	84.027A	206600011709036600		55,932
IDEA B, Formula Grant*	84.027A	216600011709036600		1,255,359
High Cost Fund*	84.027A	21660012		24,858
IDEA B, Preschool*	84.173A	216610011709036610		6,063
Passed Through Education Service Center, Region VI				
Title III, Part A - English Language Acquisition - SSA	84.365A	21671001236950		6,440
TOTAL U.S. DEPARTMENT OF EDUCATION				2,502,084
U.S. DEPARTMENT OF DEFENSE				
Passed Through Montgomery County				
Marine Corps Junior ROTC (MCJROTC)	12.000	TX250285		88,739
TOTAL U.S. DEPARTMENT OF DEFENSE				88,739
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through State Department of Education				
Child Nutrition Cluster:				
School Breakfast Program*	10.553	806780706		299,691
National School Lunch Program*	10.555	806780706		964,106
USDA Commodities	10.565	806780706		300,817
TOTAL U.S. DEPARTMENT OF AGRICULTURE				1,564,614
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	7,609,724
Federal revenue per SEFA			$	7,609,724
SHARS				844,369
E-Rate Revenue				133,119
C-2 Federal revenue			$	8,587,212

** Indicates clustered program under OMB Compliance Supplement*

The accompanying notes are an integral part of this schedule.

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NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the District, and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3: INDIRECT COST RATE

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

NOTE 4: DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During the emergency period of COVID-19, federal agencies and recipients of federal assistance funds donated personal protective equipment (PPE) to nonfederal entities. In connection with that donation, the recipient must disclose the estimated value of the donated PPE, but such amounts are not included in the SEFA. The District did not receive any PPE donations funded by federal assistance funds during the reporting year.

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Montgomery Independent School District

SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended June 30, 2021

Data Control Codes		Responses
SF1	Was there an unmodified opinion in the annual financial report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF4	Was the District issued a warrant hold?	No
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the District post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws, and rules that were in effect at the District's fiscal year end?	Yes
SF8	Did the Board members discuss the District's property values at a Board meeting within 120 days before the District adopted its budget?	Yes
SF9	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end	$ -

July 27, 2022

We have acted as bond counsel to the Montgomery Independent School District (the "District") in connection with the issuance of $99,060,000 aggregate principal amount of bonds designated as "Montgomery Independent School District Unlimited Tax School Building Bonds, Series 2022" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on June 6, 2022, and the related pricing certificate (together, the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the District.
2. The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

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

ORRICK, HERRINGTON & SUTCLIFFE LLP

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