

OFFICIAL STATEMENT
Dated August 9, 2023

NEW ISSUE – BOOK ENTRY ONLY

Enhanced/Unenhanced Ratings:
S&P: “AAA” / “A+”
PSF: “Guaranteed”

(See “APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and
“OTHER PERTINENT INFORMATION – Municipal Bond Rating” herein)

In the opinion of Special Tax Counsel, assuming the accuracy of certain representations and certifications, and continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal income tax purposes, and, further, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. See “TAX MATTERS” herein for a description of certain other federal tax consequences of ownership of the Bonds.

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.



\$5,940,000
PRAIRILAND INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Lamar and Red River Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

Dated Date: August 15, 2023

Due: February 15, as shown on page ii herein

Interest to Accrue from Date of Delivery (defined below)

AUTHORITY FOR ISSUANCE AND SECURITY ... The Prairiland Independent School District (the “District”) is issuing its Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”) pursuant to the Constitution and general laws of the State of Texas (the “State”), including, particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 7, 2022 (the “Election”) authorizing the issuance of unlimited tax bonds and a bond order (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on August 9, 2023. The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from an annual ad valorem tax levied, without legal limit as to the rate or amount, against all taxable property within the District (see “THE BONDS – Authority for Issuance”). The District 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 “APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from the Date of Delivery will be payable on August 30, 2023 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 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 (as applicable) will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, to the Securities Depository, 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.

PURPOSE ... Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational and extracurricular facilities in the District; and (ii) the costs of issuing the Bonds. See “PLAN OF FINANCING – Sources and Uses of Funds” herein.

**For Stated Maturities, 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 underwriter of the Bonds named below (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Leon Alcala, PLLC, Austin, Texas, Bond Counsel, and Greenberg Traurig, LLP, Houston, Texas, Special Tax Counsel (see “APPENDIX D – FORM OF BOND COUNSEL’S OPINION” and “APPENDIX E - FORM OF SPECIAL TAX COUNSEL’S OPINION” hereto). Certain matters will be passed upon for the Underwriter by its counsel, Winstead PC, San Antonio, Texas. It is expected that the Bonds will be available for delivery through DTC on or about August 29, 2023 (the “Date of Delivery”).

STEPHENS INC.

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

\$5,940,000

PRAIRILAND INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Lamar and Red River Counties, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

CUSIP No. Prefix 739720⁽¹⁾

\$4,850,000 Serial Bonds

Maturity Date (2/15)	Principal (\$)	Interest Rate (%)	Initial Yield⁽²⁾ (%)	CUSIP No. Suffix⁽¹⁾
2024	105,000	5.00	3.60	FK1
2025	545,000	5.00	3.56	FL9
2026	805,000	5.00	3.44	FM7
2027	795,000	5.00	3.32	FN5
2028	700,000	5.00	3.29	FP0
2029	590,000	5.00	3.30	FQ8
2030	475,000	5.00	3.26	FR6
2031	370,000	5.00	3.23	FS4
2032	260,000	5.00	3.23	FT2
2033	205,000	5.00	3.28 ⁽³⁾	FU9

\$1,090,000 Term Bonds

\$410,000 5.00% Term Bonds due February 15, 2035, Priced to Yield 3.40% ⁽³⁾ CUSIP No. ⁽¹⁾ Suffix FV7

\$680,000 5.00% Term Bonds due February 15, 2038, Priced to Yield 3.77% ⁽³⁾ CUSIP No. ⁽¹⁾ Suffix FW5

(Interest to accrue from the initial Date of Delivery)

The District reserves the option to redeem the Bonds maturing on and after February 15, 2033 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, 2032, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15 in the years 2035 and 2038 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity as described herein. See "THE BONDS – Redemption Provisions of the Bonds."

⁽¹⁾ 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 FactSet 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. Neither the Underwriter, the District, or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The initial yields at which Bonds are priced are established by and are the sole responsibility of the Underwriter and may be changed at any time at the discretion of the Underwriter.

⁽³⁾ Represents the yield to the first optional redemption date.

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
466 FM 196 South
Pattonville, Texas 75468

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Jerrod Bankhead	President	May 2024	Rancher
Ryan Gordon	Secretary	May 2024	Rancher
David Basinger	Member	May 2024	Farm Operations Manager
John Dunagan	Member	May 2026	Production Assistant
Dustin Nation	Member	May 2025	Telephone Co
Ronnie Joe Bridges	Member	May 2025	Lineman
Kyle Blanton	Member	May 2026	Construction

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Mr. Jeff Ballard	Superintendent
Ms. Ronda Weatherford	Director of Finance

CONSULTANTS AND ADVISORS

Bond Counsel	Leon Alcala, PLLC, Austin, Texas
Special Tax Counsel	Greenberg Traurig, LLP, Houston, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas
Auditors	Wilf & Henderson, P.C., Texarkana, Texas

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 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 "APPENDIX F - 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 Municipal Advisor provided the following sentence for inclusion in this Official Statement. The Municipal 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 Municipal 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 UNDERWRITER 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.

Neither the District or Municipal Advisor or the Underwriter 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 "APPENDIX F - 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, INCLUDING 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 MAY BE 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

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

THE DISTRICT	The Prairiland Independent School District (the "District") is a political subdivision located in Lamar and Red River Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered three-year terms with elections being held in May of each year. 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 District is approximately 236.26 square miles in area. The District serves an estimated population of 5,870.
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 7, 2022, and a Bond Order to be adopted by the Board on August 9, 2023. (See "THE BONDS – Authority for Issuance").
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement. See "THE BONDS – Description of the Bonds".
DATED DATE	August 15, 2023.
PAYMENT OF INTEREST ...	Interest on the Bonds will accrue from the Date of Delivery and will be payable on August 30, 2023 (an irregular interest payment date), and thereafter on February 15 and August 15 of each year until stated maturity or prior to redemption. See "THE BONDS – Description of the Bonds".
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 15, 2033, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2032 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The Bonds maturing on February 15 in the years 2035 and 2038 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity as described herein. See "THE BONDS – Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. See "THE BONDS - Security and Source of Payment".
PERMANENT SCHOOL FUND GUARANTEE	The District 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 "APPENDIX F – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
TAX MATTERS	In the opinion of Special Tax Counsel, assuming the accuracy of certain representations and certifications, and continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal income tax purposes, and, further, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. See "TAX MATTERS" herein for a description of certain other federal tax consequences of ownership of the Bonds.
QUALIFIED TAX-EXEMPT OBLIGATIONS.....	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
MUNICIPAL BOND RATING ...	The presently outstanding unlimited tax-supported debt of the District, including the Bonds, is rated "A+" by S&P Global Ratings ("S&P") without regard to credit enhancement. The Bonds are also expected to be rated "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State. See "APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational and extracurricular facilities in the District; and (ii) the costs of issuing the Bonds. See "PLAN OF FINANCING - Purpose" and "—Sources and Uses of Funds".
BOOK-ENTRY ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds See "BOOK-ENTRY-ONLY SYSTEM".
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about August 29, 2023 (the "Delivery Date").
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 Leon Alcala, PLLC, Austin, Texas, Bond Counsel and Greenberg Traurig, LLP, Houston, Texas, Special Tax Counsel. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX E – FORM OF SPECIAL TAX COUNSEL'S OPINION" herein).

OFFICIAL STATEMENT

Relating to

\$5,940,000

PRAIRILAND INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Lamar and Red River Counties)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

INTRODUCTION

This Official Statement, which includes the appendices hereto, provides certain information regarding the issuance of the \$5,940,000 Prairiland Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2023 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 7, 2022 ("Election"), and a Bond Order adopted by the Board on August 9, 2023. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District See "THE BONDS – Authority for Issuance".

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

Included in this Official Statement are descriptions of the Bonds, the Bond Order and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Municipal 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.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE" for a description of the District's undertaking to provide certain information on a continuing basis.

Description of the District

The District is a political subdivision of the State and is located in Lamar and Red River Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

INFECTIOUS DISEASE OUTBREAK – COVID-19

In March 2020, the World Health Organization and the President of the United States (the "President") separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On April 10, 2023, the President signed a resolution terminating the national emergency related to the Pandemic, and on May 5, 2023, the World Health Organization declared COVID-19 no longer represented a global health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The District has not experienced any decrease in property values or unusual tax delinquencies as a result of COVID-19 and the District's operations and financial position are not currently impacted as a result of COVID-19. However, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (i) the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational and extracurricular facilities in the District; and (ii) the costs of issuing 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	\$5,940,000.00
Reoffering Premium on the Bonds	442,001.60
TOTAL SOURCES	\$6,382,001.60

Uses of Funds:

Deposit to Construction Fund	\$6,220,000.00
Underwriter's Discount	40,167.04
Costs of Issuance and Rounding Amount ⁽¹⁾	121,834.56
TOTAL USES	\$6,382,001.60

⁽¹⁾ Includes legal fees of the District, Municipal Advisory fees, rating agency fees, fees of the Paying Agent/Registrar, and other costs of issuance.

THE BONDS

Description of the Bonds

The Bonds will be dated August 15, 2023 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page. Interest on the Bonds will accrue from the Date of Delivery, will be payable on August 30, 2023 (an irregular interest payment date), and each February 15 and August 15 thereafter until stated maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (detailed 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 in principal for any one maturity.

The definitive Bonds will initially 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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service 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 purchasers of the Bonds ("Beneficial Owners"). See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), the Bond Order, and the Election.

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM". Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

Permanent School Fund Guarantee

The District has applied for and anticipates receiving conditional approval from the Texas Education Agency, in connection with the sale of the Bonds, and anticipates receiving conditional approval from the Commissioner of Education for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program pursuant to Chapter 45, Subchapter C of the Texas Education Code. Subject to certain conditions discussed under the heading "APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, Beneficial Owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

Redemption Provisions of the Bonds

Optional Redemption. The District reserves the right to redeem the Bonds maturing on and after February 15, 2033, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2032 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. When the Bonds or portions thereof have been called for redemption and due provisions have been made to redeem the Bonds, the amounts so redeemed shall be payable solely from the funds provided for redemption, and interest which would otherwise accrue on the Bonds or portions thereof called for redemption shall terminate on the date fixed for redemption.

Mandatory Redemption. The Bonds maturing on February 15 in the years 2035 and 2038 (the "Term Bonds") are also subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order, on February 15 in each of the years and in the amounts set forth below:

Term Bonds Stated to Mature on February 15, 2035

<u>Year</u>	<u>Principal Amount (\$)</u>
2034	195,000
2035*	215,000

Term Bonds Stated to Mature on February 15, 2038

<u>Year</u>	<u>Principal Amount (\$)</u>
2036	240,000
2037	260,000
2038*	180,000

*Stated Maturity

The particular Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, not later than the 45th day before Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been optionally redeemed on or before the 45th day before the applicable mandatory redemption date and which have 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 may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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.

In the Bond Order, the District reserves the right in the case of a redemption to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon

the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

DTC Redemption Provisions

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, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on 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 Bond Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Defeasance

The Bond Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

The Bond Order does not contractually limit defeasance investments to those described above. As a result, the holders of the Bonds may be deemed to have consented to other defeasance investments in the event that Texas law is changed to allow for such other defeasance investments.

Amendments to Bond Order

The District may, without the consent of or notice to any holders of the Bonds, from time to time and at any time amend the Bond Order without the consent of any Beneficial Owner in any manner not detrimental to the interests of the Beneficial 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, amend, add to, or rescind any of the provisions of the Bond Order; except that, without the consent of all of the beneficial owners of the Bonds then outstanding, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Bond Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "APPENDIX F - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM " herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

The opinions of Bond Counsel and Special Tax Counsel will be qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinions of the District's Bond Counsel, Leon Alcala, PLLC, Austin, Texas and Special Tax Counsel, Greenberg Traurig, LLP, Houston, Texas.

Delivery

When issued; anticipated to occur on or about August 29, 2023.

Future Issues

On May 7, 2022, the District's voters authorized the District to issue \$16,000,000 in unlimited ad valorem tax bonds pursuant to the Election. The Bonds will be the second and final installment of this authorization and the District will apply bond proceeds (principal and allocated premium) in the aggregate amount of \$6,220,000 (leaving no bonds unissued) against the same. Aside from the Bonds and any potential refunding issues for debt service savings, the District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months.

The District may, without voter approval, enter into other financial obligations, 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 BOKF, NA, Dallas, Texas. The Bond Order provides for the District's right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date for Interest Payment

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on any Bond is the close of business on the last business day of the month next preceding each interest payment date. The Record Date for the first interest payment on August 30, 2023 is the close of business on August 29, 2023.

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 are required (i) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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 (defined below) 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 and the Municipal Advisor 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.

The Depository Trust Company ("DTC"), New York, New York, 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 stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but neither the District or the Municipal Advisor take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

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

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 Bond Order and summarized under the caption “REGISTRATION, TRANSFER AND EXCHANGE” above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the Bonds will be 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 on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See “APPENDIX F – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in APPENDIX F is incorporated herein and made a part hereof for all purposes.

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 Lamar and Red River County Appraisal Districts (the “Appraisal Districts”). Except as generally described below, the Appraisal Districts are required to appraise all property within the Appraisal Districts 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 Districts are 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 Districts 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. See “AD VALOREM TAX PROCEDURES — District and Taxpayer Remedies.”

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 Districts 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, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session” for a discussion of SB 2 and the November 7, 2023 State-wide election at which voters will consider an amendment to the Texas Constitution to increase the general residential homestead exemption from \$40,000 to \$100,000.

Local Option Homestead Exemptions

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

See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Legislative Session” for a discussion of SB 2 and the November 7, 2023 State-wide election at which voters will consider an amendment to the Texas Constitution to increase the general residential homestead exemption from \$40,000 to \$100,000. If voters approve such increased exemption, school districts will be subject to certain restrictions upon eliminating or reducing local option homestead exemptions as discussed in “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Legislative Session”.

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.

On May 7, 2022, a constitutional amendment was approved by the voters of the State authorizing the legislature to provide for the reduction of the amount of a limitation on the total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is elderly or disabled to reflect any statutory reduction from the preceding tax year in the maximum compressed rate of the maintenance and operations taxes imposed for those purposes on the homestead, effective for the tax year beginning January 1, 2023.

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 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. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended. Section 11.35 of the Property Tax Code was recently amended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), previously allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. During 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 State did not take action during the 2021 Legislative Session to extend this program, which expired by its terms on December 31, 2022.

During the Regular Session of the 88th Texas Legislature, House Bill 5 ("HB 5") was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code, but it contains significantly different provisions than the prior program

under Chapter 313, Texas Tax Code. The District is still in the process of reviewing HB 5 and cannot make any representations as to what impact, if any, HB 5 will have on its finances or operations.

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

District and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$57,216,456 for the 2023 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and 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. 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 Districts have the responsibility for appraising all of the property in the District as well as other taxing units in Lamar County and Red River County, respectively. The Appraisal Districts are each governed by a board of five directors appointed by voters of the governing bodies of various Lamar County and Red River County political subdivisions, respectively. The District's taxes are collected by the Lamar County and Red River County Tax Assessors/Collectors.

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

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%

*Excludes 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 does tax "freeport property" without 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 provides the State-mandated exemption to the market value of residence homesteads of \$40,000. The District grants an additional State-mandated exemption of \$10,000 to the market value of the residence homestead of persons: (1) 65 years of age or older, and (2) the disabled.

The District has executed a number of value limitation agreements (each a "Chapter 313 Agreement") previously authorized under Chapter 313, Texas Code ("Chapter 313"). Under Chapter 313, Texas school districts previously could grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. **Chapter 313 Agreements do not impact school district interest and sinking fund taxes used to pay bonded indebtedness, including the Bonds.**

- The District has entered into a Chapter 313 Agreement, limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2020 and extending through tax year 2029 with Impact Solar I, LLC f/k/a G.S.E. Twelve, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2022 and extending through tax year 2031 with Samson Solar Energy, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2026 and extending through tax year 2035 with Samson Solar Energy II, LLC.

- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2022 and extending through tax year 2031 with Samson Solar Energy III, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2024 and extending through tax year 2033 with Delilah Solar Energy, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2024 and extending through tax year 2033 with Paris Farm Solar, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$20,000,000, beginning tax year 2028 and extending through tax year 2037 with SGT Hoskins Solar Project, LLC.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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. 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.

2023 Legislative Session

The 88th Legislature convened in general session on January 10, 2023 and adjourned on May 29, 2023. At the conclusion of the regular session, the Governor called an immediate special session of the 88th Texas Legislature, which began on May 29, 2023 and ended on June 27, 2023. At the conclusion of the first special session, the Governor called a second special session, which began on June 27, 2023 and adjourned sine die on July 13, 2023. During the second special session, the Governor placed just two items on the agenda, including legislation: (1) "to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers" and (2) "to put Texas on a pathway to eliminating school district maintenance and operations property taxes." During this time, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that: (a) reduce the maximum M&O tax compression rate by \$0.107 (causing Maximum Compressed Rates (defined herein) for the 2023/24 school year to range from \$0.6880 to \$0.6192), (b) increase the school district mandatory homestead exemption from \$40,000 to \$100,000 (subject to State-wide voter approval of a related constitutional amendment), (c) prohibit a school district that had a general optional homestead exemption in tax year 2022 from repealing or reducing the optional exemption until tax year 2028, and (d) limit the appraised value of a non-homestead property valued at \$5 million or less to the lesser of (1) the market value of the property or (2) the market value of all new improvements to the property, plus 120% of the appraised value of the property for the preceding tax year. SB 2 also makes provision for State aid funding to pay for the loss in school district M&O and I&S tax revenue (i.e., "hold harmless"). The hold harmless for the I&S tax revenue applies to (1) certain eligible bonds that are outstanding as of the effective date of SB 2, and (2) bonds that have been voter-approved but not yet issued as of the effective date of SB 2. The provisions set forth in (b) and (d) above will be submitted to voters of the State on November 7, 2023, and the effectiveness of the provisions described in (a)-(d) are conditioned upon passage of relevant constitutional amendments to be voted upon at such election. The Governor has signed SB 2 into law. After each special session, the Texas Governor may call one or more additional special sessions, each of which may last no longer than 30 days. During each special session, the Texas Legislature may enact laws that materially change current law as it relates to the funding and operation of public schools, including those impacting the District and its finances.

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

Local Funding for School Districts

A school district's M&O tax rate has 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. 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” (the “SCP”) is a statutorily defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The SCP 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 SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2023, the SCP is set at 89.41%.

Maximum Compressed Tax Rate. 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 two alternative calculations: (1) the “State Compression Percentage” (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). 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 2022-2023 school year. It established \$0.8941 as the maximum rate and \$0.8046 as the floor.

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR for such year. 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 amended, as discussed herein), and in some instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations”), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

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

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 2022-2023 school year and thereafter, the fast growth allotment weights are 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 \$310 million for the 2022-2023 school year and \$315 million for the 2023-2024 school year.

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

Because 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 certain legislation passed during the 86th Texas Legislature 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.

Additionally, school districts and open-enrollment charter schools may be entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Notwithstanding the foregoing, beginning with the 2020-2021 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 state and local entitlement and whose Copper Pennies generate local funds in excess of the school district's Tier II guarantee as previously discussed (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, and they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (6) 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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2022-2023 fiscal year, 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 local revenue levels must be tested for each future school year and, if local revenues exceed the district's entitlements, the district must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's local revenues should exceed its entitlements in future school years, it will be required to exercise one or more of the permitted options to reduce local revenues.

If the District were to consolidate (or consolidate its tax base for all purposes) with a district not designated as an excess local revenue district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein).

For the State fiscal year ending in 2023 (the 2022-2023 school year), the State Compressed Percentage was set at \$0.8941 per \$100 of taxable value. The District's Local Compressed rate was lower than the State Compressed rate resulting in a MCR of \$0.8046 per \$100 of taxable value. 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 ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on July 23, 1960 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

I&S Tax Rate Limitations

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE BONDS – Security and Source of 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 50-cent 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 50-cent Test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the 50-cent Test. The District has not utilized projected values or State assistance to satisfy the 50-cent 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. 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.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate, prior to issuance, the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are issued as new debt and subject to this limitation.

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 "NOTES TO THE FINANCIAL STATEMENTS – K. Defined Benefit Pension Plan (TRS)" as set out in the audited financial statements of the District for the year ended June 30, 2022 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "NOTES TO THE FINANCIAL STATEMENTS – L. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended June 30, 2022 as set forth in APPENDIX C 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 2021-22 fiscal year, the District had a net pension liability of \$914,843.

See the audited financial statements of the District for the year ended June 30, 2022 as set forth in APPENDIX C hereto for information related to the District's adoption of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB") 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 funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both Texas 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 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 the 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 Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (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 FDIC or the NCUSIF, 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 pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also 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 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 ten (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.

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.

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 delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver his opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," Special Tax Counsel's opinion that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The forms

of Bond Counsel's and Special Tax Counsel's opinions are attached hereto as APPENDIX D and APPENDIX E, respectively. The legal fee to be paid to Bond Counsel and Special Tax Counsel is contingent upon the sale and delivery of the Bonds.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "DTC Redemption Provisions," "Default and Remedies," "Payment Record," and "Future Issues," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "LEGAL MATTERS" (insofar as such section relates to the legal opinion of Bond Counsel only and specifically excluding the information under the subcaption "Litigation," as to which no opinion is expressed), "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" 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 description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order. Special Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Special Tax Counsel, such firm has reviewed the information under the captions "TAX MATTERS" and "LEGAL MATTERS" (insofar as such section relates to the legal opinion of Special Tax Counsel), 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 description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

Certain legal matters will be passed upon for the Underwriter by its counsel, Winstead PC, San Antonio, Texas. The legal fee to be paid to counsel to the Underwriter for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Though it represents the Underwriter from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do 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 such opinions guarantee the outcome of any legal dispute that may arise from 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 Underwriter with a certificate substantially 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

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the District must continue to meet after the issuance of the Bonds in order that the interest on the Bonds be and remain excludable from gross income for federal income tax purposes. The District's failure to meet these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The District has covenanted in the Bond Order to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

In the opinion of Special Tax Counsel, assuming the accuracy of certain representations and certifications of the District and continuing compliance by the District with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes, and, further, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. Special Tax Counsel will express no opinion as to any other federal, state or local tax consequences under present law or any proposed legislation regarding the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state.

Except as described above, Special Tax Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. Prospective purchasers of Bonds should be aware that the ownership of Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the interest on the Bonds, (iii) the inclusion of the interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the interest on the Bonds in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, (v) the inclusion of interest on the Bonds in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits, (vi) net gain realized upon the sale or other disposition of property such as the Bonds generally must be taken into account when computing the Medicare tax with respect to net investment income or undistributed net investment income, as applicable, imposed on certain high income individuals and specified trusts and estates and (vii) receipt of certain investment income, including interest on the Bonds, is considered when determining qualification limits for obtaining the earned income credit provided by Section 32(a) of the Code. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the impact of these other tax consequences.

Special Tax Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Tax Counsel as of the date thereof. Special Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Tax Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Tax Counsel's opinions are not a guarantee of a particular result, and are not binding on the IRS or the courts; rather, such opinions represent Special Tax Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Original Issue Premium and Discount

Certain of the Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity (or earlier for certain Premium Bonds callable prior to maturity). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity), or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond.

Certain of the Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond determined under Code Section 1273 or 1274 (i.e., for obligations issued for money in a public offering, the initial offering price to the public (other than to bond houses and brokers) at which a substantial amount of the obligation of the same maturity is sold pursuant to that offering). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

Changes in Tax Law

From time to time, there are legislative proposals suggested, debated, introduced or pending that, if enacted into law, could alter or amend one or more of the tax matters, described above including, without limitation, the excludability from gross income of interest on the Bonds, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would affect the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the impact of any proposed or pending legislation.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Bonds, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Bonds. This withholding generally applies if the owner of Bonds (i) fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year.

Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a “bank,” as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.”

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. 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 with at least \$1 million of capital and savings and loan associations.

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

CYBERSECURITY

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District’s finances or operations. The costs of remedying

such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

CONTINUING DISCLOSURE

The District in the Bond Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in APPENDIX A of this Official Statement (except with respect to Table 6 – "Estimated Overlapping Debt"), and (2) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX C hereto or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in this Official Statement, and (ii) audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

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 the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above 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 or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by the Rule.

Notice of Certain Events

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

Neither the Bonds nor the Bond Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

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 orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. The term “financial obligation” used in clauses (15) and (16) of the immediately preceding paragraph means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee or either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

The District previously issued bonds subject to a Continuing Disclosure Agreement (“CDA”) whereby the District is required to file certain annual financial information. Although the District timely filed its audited financial statements for each of the past five years, the District’s fiscal year 2020 annual financial information report did not include Tables 7, 8, 10, 12 and 16 as required by the CDA. The District filed the missing tables on September 14, 2021 and a Failure to File notice dated as of October 12, 2021.

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.

Municipal Bond Rating

The Bonds are expected to be rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding debt of the District, including the Bonds, is rated “A+” by S&P without regard to credit enhancement.

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

Municipal Advisor

Live Oak Public Finance, LLC (the “Municipal Advisor”) is employed as the Municipal Advisor to the District in connection with the issuance of the Bonds. The Municipal 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 Municipal 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 Municipal Advisor has provided the following sentence for inclusion in this Official Statement. The Municipal 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 Municipal Advisor does not guarantee the accuracy or completeness of such information.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriter’s discount of \$40,167.04 (and no accrued interest). The Underwriter’s obligation is subject to certain conditions precedent. The Underwriter 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 Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Underwriter and its 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 Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District.

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

Miscellaneous

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. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official

Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

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, the Rule.

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.

This Official Statement has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

In the Bond Order, the Board has approved, 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 Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

PRAIRILAND INDEPENDENT SCHOOL DISTRICT

/s/ Jerrod Bankhead

President, Board of Trustees

ATTEST:

/s/ Ryan Gordon

Secretary, Board of Trustees

APPENDIX A

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 - Valuation, Exemption & Tax Supported Debt

<u>Assessed Valuation and Exemption</u> ⁽¹⁾	
2023 Tax Year Total Valuation	\$1,756,374,781
Less: Exemptions and Deductions	(679,754,564)
2023 Tax Year Net Taxable Valuation	<u>\$1,076,620,217</u>
<u>Tax Supported Debt</u>	
Unlimited Tax Bonds Outstanding (as of June 1, 2023)	\$21,915,000
The Bonds	5,940,000
Total Unlimited Tax Bonds ⁽²⁾	<u>\$27,855,000</u>
Less: Interest & Sinking Fund Balance (as of June 1, 2023) ⁽³⁾	1,029,520
Net General Obligation Debt ⁽³⁾	<u>\$26,825,480</u>
Ratio of Net G.O. Debt to Net Taxable Valuation	2.49%
Estimated District Population ⁽⁴⁾	5,870
Per Capita Net Taxable Valuation	\$183,411
Per Capita Net G.O. Debt	\$4,570

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts Certified Values. Valuation reflects the current \$40,000 general homestead exemption. In the event that the increased exemption is approved by voters, the District expects to be entitled to certain hold harmless payments from the State to defray the loss in taxable value. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session." Valuation includes the full taxable value of properties that are subject to a series of values limitation agreements that the District has entered into pursuant to Chapter 313 of the Tax Code and is the full value that is used in calculating the District's I&S tax levy. The Taxable Assessed Valuation used for the purpose of calculating the District's M&O tax levy for the 2023 Tax Year is approximately \$592,856,716.

⁽²⁾ Includes the Bonds.

⁽³⁾ Source: The District's records. Unaudited as of June 1, 2023.

⁽⁴⁾ Source: The Municipal Advisory Council of Texas

TABLE 2 - Historical Net Taxable Assessed Valuation ⁽¹⁾

	Tax Year 2023	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year 2019
Gross Value	\$1,756,374,781	\$1,370,762,135	\$1,007,739,114	\$650,788,406	\$583,337,177
Less: Exemptions	(679,754,564)	(462,986,384)	(405,672,152)	(372,313,098)	(324,237,938)
Net Taxable Value	\$1,076,620,217	\$907,775,751	\$602,066,962	\$278,475,308	\$259,099,239

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts Certified Values. Valuation reflects the current \$40,000 general homestead exemption. In the event that the increased exemption is approved by voters, the District expects to be entitled to certain hold harmless payments from the State to defray the loss in taxable value. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session." Valuation includes the full taxable value of properties that are subject to a series of values limitation agreements that the District has entered into pursuant to Chapter 313 of the Tax Code and is the full value that is used in calculating the District's I&S tax levy. The Taxable Assessed Valuation used for the purpose of calculating the District's M&O tax levy for the 2023 Tax Year is approximately \$592,856,716.

TABLE 3 - Valuation and Tax Supported Debt History

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Net Taxable AV Per Capita	Tax Supported Debt Outstanding ⁽³⁾	Ratio of Tax Supported Debt to Assessed Valuation ⁽³⁾	Tax Supported Debt Per Capita ⁽³⁾
2019	5,934	\$232,728,590	\$39,220	\$7,160,000	3.08%	\$1,207
2020	5,898	259,099,239	43,930	6,895,000	2.66%	1,169
2021	5,484	278,475,308	50,780	6,625,000	2.38%	1,208
2022	5,805	602,066,992	103,715	13,420,000	2.23%	2,312
2023	5,870	907,775,751	154,647	27,855,000	3.07%	4,745

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Source: Lamar County and Red River County Appraisal Districts. Represents I&S values.

⁽³⁾ Excludes Maintenance Tax Notes, Series 2011. See "Table 9 – Other Obligations" below.

TABLE 4 - Tax Rate, Levy and Collection History ⁽¹⁾

Fiscal Year Ended 06/30	Total Tax Rate	Local Maintenance	I&S Fund	Tax Levy	Percent Collections	
					Current ⁽²⁾	Total ⁽²⁾
2019	\$1.1695	\$1.0400	\$0.1295	\$2,605,141	95.08%	97.43%
2020	1.0995	0.9700 ⁽³⁾	0.1295	2,749,330	96.28%	100.87%
2021	1.0959	0.9664	0.1295	3,095,147	96.07%	97.93%
2022	1.0950	0.8720	0.2230	4,872,746	96.47%	98.28%
2023	1.0950	0.8546	0.2404	5,967,579 ⁽⁴⁾	96.33% ⁽⁴⁾	96.33% ⁽⁴⁾

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts

⁽²⁾ Source: District's Audited Financial Statements. Excludes penalties and interest.

⁽³⁾ The decline in the District's Maintenance & Operations Tax from the 2019-20 fiscal year to the present 2021-22 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" herein

⁽⁴⁾ Source: The District's records. Unaudited as of June 1, 2023.

TABLE 5 - Largest Taxpayers, 2022 ⁽¹⁾⁽²⁾

Taxpayer Name	Property Type	AV	% of Total
Samson Solar Energy	Solar Energy Plant	\$205,000,000	22.58%
Impact Solar 1, LLC	Solar Energy Plant	175,761,560	19.36%
Samson Solar Energy III LLC	Solar Energy Plant	95,556,760	10.53%
TIC The Industrial Co.	Industrial Manufacturing	31,858,710	3.51%
Delilah Solar Energy LLC	Solar Energy Plant	24,821,984	2.73%
ONCOR Electric Delivery	Electric Utility/Power Plant	15,884,450	1.75%
Cypress Creek Renewables	Solar Energy Plant	9,855,150	1.09%
Midcontinent Express	Oil & Gas Pipeline	7,431,420	0.82%
Gulf South Pipeline Co. LP	Oil & Gas Pipeline	6,135,420	0.68%
Texas-New Mexico Power Co.	Electric Utility/Power Plant	5,999,470	0.66%
Top 10 Totals:		\$578,304,924	63.71%

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts

⁽²⁾ As shown in the table above, the ten largest taxpayers in the District currently account for over 63% of the District's tax base, with the majority of such property comprised of solar energy plants and utilities related business activities. Ownership of electric utilities may also potentially be transferred to municipalities or entities that operate electric utility facilities and that are exempt from ad valorem taxes, subjecting the District to risk of loss of the property tax values of such transferred utility facilities. Adverse developments in economic conditions could adversely impact the businesses that own such properties (and recent events such as COVID-19 significantly increased the volatility in the oil & gas market sector, within which several top taxpayers operate, see ("INFECTIOUS DISEASE OUTBREAK - COVID-19" herein) in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Default and Remedies" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" herein.

TABLE 6 - Estimated Overlapping Debt ⁽¹⁾

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Blossom, City of	7/31/2023	\$573,000	100.00%	\$573,000
Lamar County	7/31/2023	5,855,000	11.65%	682,108
Paris, City of	7/31/2023	96,650,000	⁽²⁾	-
Red River County	7/31/2023	-	1.67%	-
Estimated (Net) Overlapping Debt				\$1,255,108
Prairiland ISD	8/29/2023	\$27,855,000	100.00%	27,855,000 ⁽³⁾⁽⁴⁾
Total Direct & Estimated Overlapping Debt				\$29,110,108 ⁽³⁾⁽⁴⁾
Total and Overlapping Debt as a % of 2023 Certified Taxable Assessed Valuation				2.70% ⁽³⁾⁽⁴⁾
Total and Overlapping Debt as a Per Capita				\$4,959.13 ⁽³⁾⁽⁴⁾

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Less than 0.01%

⁽³⁾ Includes the Bonds.

⁽⁴⁾ Excludes Maintenance Tax Notes, Series 2011. See "Table 9 – Other Obligations" below.

TABLE 7 - Tax Supported Debt Service Requirements*

Fiscal Year Ending 6/30	Outstanding Debt Service	Plus: The Bonds ⁽¹⁾			New Total Debt Service Requirements ⁽¹⁾
		Principal	Interest	Total	
2024	1,959,962	\$105,000	\$136,950	\$241,950	\$2,201,912
2025	1,863,075	545,000	291,750	836,750	2,699,825
2026	1,733,450	805,000	264,500	1,069,500	2,802,950
2027	1,646,625	795,000	224,250	1,019,250	2,665,875
2028	1,238,150	700,000	184,500	884,500	2,122,650
2029	1,446,538	590,000	149,500	739,500	2,186,038
2030	1,330,058	475,000	120,000	595,000	1,925,058
2031	1,266,237	370,000	96,250	466,250	1,732,487
2032	1,143,286	260,000	77,750	337,750	1,481,036
2033	1,187,666	205,000	64,750	269,750	1,457,416
2034	1,174,384	195,000	54,500	249,500	1,423,884
2035	1,148,625	215,000	44,750	259,750	1,408,375
2036	1,040,525	240,000	34,000	274,000	1,314,525
2037	1,030,775	260,000	22,000	282,000	1,312,775
2038	1,435,350	180,000	9,000	189,000	1,624,350
2039	599,050	-	-	-	599,050
2040	874,975	-	-	-	874,975
2041	881,200	-	-	-	881,200
2042	981,650	-	-	-	981,650
2043	878,900	-	-	-	878,900
2044	886,950	-	-	-	886,950
2045	883,975	-	-	-	883,975
2046	875,175	-	-	-	875,175
2047	880,800	-	-	-	880,800
2048	885,450	-	-	-	885,450
2049	884,000	-	-	-	884,000
2050	881,650	-	-	-	881,650
2051	883,325	-	-	-	883,325
2052	884,025	-	-	-	884,025
Total	\$32,805,827	\$5,940,000	\$1,774,450	\$7,714,450	\$40,520,277
Average Annual Debt Service Requirement					\$1,397,251
Maximum Debt Service Requirement					\$2,802,950

⁽¹⁾ Unlimited tax debt only. Excludes Maintenance Tax Notes, Series 2011, which are separately secured by the District's maintenance and operations tax. See "Table 9 – Other Obligations" below.

TABLE 8 - Authorized But Unissued Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Issued	Unissued Balance
School Building	5/7/2022	\$8,000,000	\$8,000,000	\$0 ⁽¹⁾	\$0 ⁽¹⁾
Athletic Improvements	5/7/2022	\$8,000,000	\$1,780,000	\$6,220,000 ⁽¹⁾	\$0 ⁽¹⁾

The District's voters could authorize the issuance of additional new money bonds at a future election. In addition, the District may, without voter approval, incur other financial obligations payable from its collection of taxes and other sources of revenue, including refunding bonds, 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.

⁽¹⁾ Includes any premium allocations that the District will apply against voted authorization.

TABLE 9 - Other Obligations ⁽¹⁾

Subsidy payments will be reduced by 5.7% with respect to payments processed on or after October 1, 2022 and on or before September 30, 2023 due to the Federal budget sequester. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.

Fiscal Year Ending 6/30	Principal	Interest	Less: Subsidy	Total Payment
2023	\$41,000	\$12,158	(\$9,937)	\$43,220
2024	44,000	9,419	(7,699)	45,720
2025	47,000	6,480	(5,296)	48,183
2026	50,000	3,340	(2,730)	50,610
Total	\$182,000	\$31,396	(\$25,662)	\$187,734

Average Annual Debt Service Requirements	\$46,934
Maximum Annual Debt Service Requirements	\$50,610

⁽¹⁾ Source: Municipal Advisory Council of Texas

TABLE 10 - Schedule of General Fund Revenues and Expenditure History ⁽¹⁾

For Fiscal Year ended June 30,	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES:					
Total Local and Intermediate Sources	\$5,745,974	\$3,341,466	\$3,017,570	\$2,575,403	\$2,483,591
State Program Revenues	7,526,157	7,887,966	8,335,673	7,570,598	7,394,325
Federal Program Revenues	-	119	553	619	507
Total Revenues	\$13,272,131	\$11,229,551	\$11,353,796	\$10,146,620	\$9,878,423
EXPENDITURES:					
Instruction	\$5,958,981	\$5,215,836	\$5,866,397	\$5,297,021	\$5,386,042
Instructional Resources & Media Services	117,144	122,066	124,577	123,145	125,343
Curriculum and Staff Development	145,510	124,644	57,790	32,371	32,404
School Leadership	805,433	819,298	785,680	722,295	656,930
Guidance, Counseling & Evaluation Services	147,116	142,375	142,773	124,377	123,627
Health Services	137,211	80,975	88,575	79,757	74,409
Student Transportation	481,099	398,613	442,114	363,868	375,944
Food Services	12,686	12,552	14,635	13,149	12,271
Co-curricular/Extracurricular Activities	495,865	469,239	477,967	509,146	555,063
General Administration	599,166	558,371	488,649	443,453	440,822
Facilities Maintenance & Operations	1,131,996	1,504,309	1,461,911	916,945	934,715
Security Monitoring and Services	4,241	1,813	3,983	23,522	16,392
Data Processing Services	146,439	135,825	158,686	122,778	127,437
Debt Service	39,841	39,071	37,584	36,034	34,491
Capital Outlay	206,368	-	-	25,826	20,000
Payments to Shared Service Arrangements	526,047	625,709	497,344	455,423	549,763
Other Intergovernmental	54,439	45,960	43,603	39,341	39,935
Total Expenditures	\$11,009,582	\$10,296,656	\$10,692,268	9,328,451	9,505,588
Other Financing Sources and (Uses)					
Other Resources	-	-	-	-	-
Other Uses	-	-	-	(\$790)	-
Transfers In	-	-	-	-	-
Transfers Out	-	(\$845,000)	(\$121,806)	-	-
Prior Period Adjustment	-	-	-	-	-
Net Change in Fund Balances	\$2,262,549	\$87,895	\$539,722	817,379	372,835
Fund Balances - Beginning	\$9,297,745	\$9,209,850	\$8,670,128	\$7,852,751	\$7,479,916
Fund Balances - Ending	\$11,560,294	\$9,297,745	\$9,209,850	\$8,670,128	\$7,852,751

⁽¹⁾ Source: District's Audited Financial Statements

⁽²⁾ The District's estimated Fund Balance at the end of the current physical year will be approximately \$10,156,904.

TABLE 11 - General Operating Fund Comparative Balance Sheet ⁽¹⁾⁽²⁾

For Fiscal Year Ended, June 30	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS:					
Cash & Cash Equivalents	\$12,499,146	\$10,201,685	\$9,526,313	8,716,769	7,938,478
Taxes Receivable, Net	365,398	327,397	314,249	331,572	222,203
Due from Other Governments	697,576	724,666	531,871	777,589	659,591
Due from Other Funds	19,181	726,917	-	-	-
Other Receivables	-	-	-	1,684	937
Inventories, at cost	4,694	9,851	9,247	15,885	15,426
Total Assets	\$13,585,995	\$11,990,516	\$10,381,680	\$9,843,526	\$8,836,635
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$128,247	\$38,101	\$28,814	138,363	52,935
Accrued Wages Payable	672,463	677,310	713,184	617,050	611,135
Due to Other Funds	785,000	885,645	27,449	790	-
Payable to Other Governments	-	694,620	-	-	-
Accrued Expenditures	98,557	84,633	88,134	85,622	97,612
Deferred/Unearned Revenues	-	-	-	-	-
Total Liabilities	\$1,684,267	\$2,380,309	\$857,581	\$841,825	\$761,682
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue-Property Taxes	\$341,434	\$312,462	\$314,249	\$331,573	\$222,204
Total Deferred Inflows of Resources	\$341,434	\$312,462	\$314,249	\$331,573	\$222,204
FUND EQUITY					
Reserve Fund Balance:					
Investment in Inventory	\$4,694	\$9,851	\$9,247	15,885	15,426
Other Reserves	-	-	-	-	-
Designated Fund Balance:					
Construction	-	-	393,816	\$1,447,065	\$1,447,065
Unreserved, Undesignated Fund Balance:	11,555,600	9,287,894	8,806,787	\$7,207,178	\$6,390,258
TOTAL FUND EQUITY	\$11,560,294	\$9,297,745	\$9,209,850	\$8,670,128	\$7,852,749
TOTAL LIABILITIES & FUND EQUITY	\$13,585,995	\$11,990,516	\$10,381,680	\$9,843,526	\$8,836,635

⁽¹⁾ Source: District's Audited Financial Statements

⁽²⁾ Includes the District's adoption of GASB Statement No. 68 for Accounting and Reporting Pensions, which was later amended by GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date during Fiscal Year 2015.

TABLE 12 - Current Investments ⁽¹⁾

	<u>Percent</u>	<u>Book Value</u>	<u>Market Value</u>
Cash and Cash Equivalents	66.56%	\$11,369,693	\$11,369,693
Certificate of Deposit	33.44%	5,712,810	5,712,810
Total	100.00%	\$17,082,503	\$17,082,503

⁽¹⁾ Source: District's records. Unaudited as of June 1, 2023.

TABLE 13 - Tax Adequacy

2024 Net Principal and Interest Requirements	\$2,201,912	⁽¹⁾
0.2087 Tax Rate at 98% Collection Produces	\$2,201,968	⁽²⁾
Average Net Annual Principal and Interest Requirements, 2024-2052	\$1,397,251	⁽¹⁾
0.1325 Tax Rate at 98% Collection Produces	\$1,397,991	⁽²⁾
Maximum Net Principal and Interest Requirements, 2026	\$2,802,950	⁽¹⁾
0.2657 Tax Rate at 98% Collection Produces	\$2,803,368	⁽²⁾

⁽¹⁾ Includes the Bonds.

⁽²⁾ Calculation based upon the 2023 Net Taxable Value at a 98% collections rate. Valuation reflects the current \$40,000 general homestead exemption. In the event that the increased exemption is approved by voters, the District expects to be entitled to certain hold harmless payments from the State to defray the loss in taxable value. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session."

TABLE 14 - Interest and Sinking Fund Budget Projection

Interest & Sinking Fund Balance, 07/01/22 (Beginning) ⁽¹⁾	\$1,145,925
Estimated Tax Supported Debt Service Requirements for FYE 2024 ⁽²⁾	\$2,201,912
Projected Interest & Sinking Fund Tax Revenue	\$2,182,293
EDA/IFA from Texas Education Agency ⁽²⁾	-
ASAHE from Texas Education Agency ⁽²⁾	18,218
Transfers In/(Out)	-
Projected Interest & Sinking Fund Balance, 06/30/23 (Ending)	\$1,144,524
Net Increase/(Decrease) in Fund Balance	(\$1,401)

⁽¹⁾ Source: The District's Audited Financial Statements

⁽²⁾ Source: Texas Education Agency Summary of Finances dated June 30, 2023.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

THE DISTRICT

General and Economic Information

Source: Texas Municipal Report for the District and District records.

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2014	1,133
2015	1,132
2016	1,120
2017	1,128
2018	1,150
2019	1,146
2020	1,134
2021	1,036
2022	1,090
2023	1,099 ⁽¹⁾

⁽¹⁾ Enrollment at year end.

District Staff

Teachers	92
Auxiliary Personnel	35
Teachers' Aides & Secretaries	26
Administrators	8
Other	17

Campus Enrollment

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>
Blossom Elementary	PreK - 5	418
Deport Elementary	PreK - 5	141
Prairiland Junior High	6 - 8	248
Prairiland High School	9-12	292

Unemployment Rates

	<u>May 2020</u>	<u>May 2021</u>	<u>May 2022</u>	<u>May 2023</u>
Lamar County ⁽¹⁾	8.9%	5.3%	3.9%	4.4%
Red River County ⁽¹⁾	7.9%	5.8%	4.8%	5.0%
State of Texas	11.6%	5.9%	3.8%	4.1%
United States	13.2%	5.8%	3.6%	3.7%

⁽¹⁾ Not seasonally adjusted.

Source: Texas Labor Market Information.

APPENDIX C

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Prairiland Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2022.

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.

**PRAIRILAND
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2022**



PRAIRILAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022

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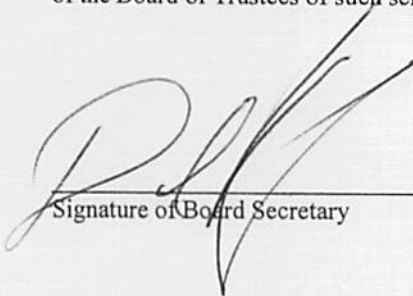
CERTIFICATE OF BOARD

Prairiland Independent School District
Name of School District

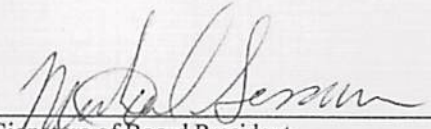
Lamar
County

139-912
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) 7 approved 0 disapproved for the year ended June 30, 2022 at a meeting of the Board of Trustees of such school district on the 14 of November, 2022.



Signature of Board Secretary



Signature of Board President

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



WILF & HENDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Member of American Institute of Certified Public Accountants
Member of Private Company Practice Section
Member of AICPA Governmental Audit Quality Center

**UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

Board of Trustees
Prairiland Independent School District
466 FM 196 South
Pattonville, TX 75468

Members of the Board:

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prairiland Independent School District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Prairiland Independent School District as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise a substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11, budgetary comparison information on page 46, schedule of the District's proportionate share of the net pension liability (TRS) on pages 47-48, schedule of District contributions to TRS on pages 49-50, schedule of the District's proportionate share of the OPEB liability (TRS) on pages 51-52, and schedule of District contributions to TRS OPEB plan on pages 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

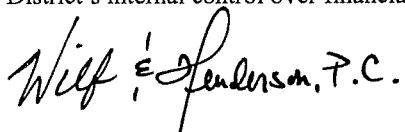
Other Information

Management is responsible for the other information included in the annual report. The other information comprises of reports required from Texas Education Agency identified in the Table of Contents as J-1 through J-4, and L-1. The other information does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2022, on our consideration of the Prairiland Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Prairiland Independent School 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 Prairiland Independent School District's internal control over financial reporting and compliance.



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 11, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Prairiland Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2022. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

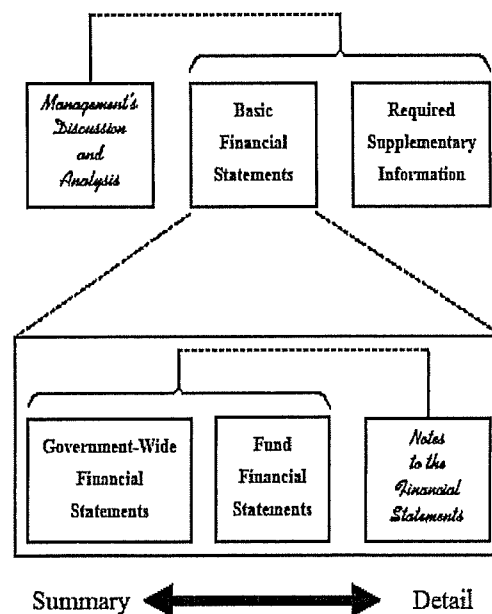
- The District's total combined net position was \$13,337,706 at June 30, 2022.
- During the year, the District's expenses were \$3,153,198 less than the \$15,508,472 generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$11,560,294.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Figure A-1: Required Components of The District's Annual Financial Information



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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

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

- *Fiduciary funds*-The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position: The District's combined net position was \$13,337,706 at June 30, 2022.

Table I
Prairiland Independent School District
NET POSITION

	Governmental Activities 2022	Governmental Activities 2021	Total % Change
Current and other assets	18,764,547	12,478,214	50.38%
Capital assets	15,997,809	11,950,374	33.87%
Total Assets	34,762,356	24,428,588	42.30%
Deferred outflows of resources	1,398,535	1,530,223	-8.61%
Other liabilities	1,867,242	1,782,009	4.78%
Long-term liabilities	14,463,720	7,195,588	101.01%
TRS net pension liability	914,843	1,867,974	-51.02%
TRS net OPEB liability	2,564,679	2,594,252	-1.14%
Total Liabilities	19,810,484	13,439,823	47.40%
Deferred inflows of resources	3,012,701	2,334,480	29.05%
Net Position:			
Net Investment in Capital Assets	5,559,582	5,089,442	9.24%
Restricted	1,130,416	362,520	211.82%
Unrestricted	6,647,708	4,732,546	40.47%
Total Net Position	13,337,706	10,184,508	30.96%

The \$6,647,708 of unrestricted net position represents resources available to fund the programs of the District next year.

Changes in net position. The District's total revenues were \$15,508,472. A significant portion, 46%, of the District's revenue comes from state aid, 32% comes from taxes, and 7% comes from operating grants, while only 1% relates to charges for services. The remaining 14% was generated from investment and miscellaneous resources.

The M&O tax rate decreased from the prior year at \$0.9964 to \$0.872000; in addition, property tax appraisal went up increasing tax revenues. The total cost of all programs and services was \$12,355,274; 75% of these costs are for instructional and student support services.

Table II
Prairiland Independent School District
CHANGES IN NET POSITION

	Governmental Activities 2022	Governmental Activities 2021	Total % Change
Revenues:			
Program Revenues:			
Charges for services	82,506	125,283	-34.14%
Operating and capital grants and contributions	1,149,646	1,769,124	-35.02%
General Revenues:			
Property taxes and related revenues	5,000,820	3,107,172	60.94%
State aid - formula grants	7,072,328	7,835,882	-9.74%
Investment earnings	76,377	37,928	101.37%
Miscellaneous	2,126,795	548,491	287.75%
Total Revenues	15,508,472	13,423,880	15.53%
Expenses:			
Instruction, curriculum and media services	6,708,594	7,127,072	-5.87%
School leadership	857,984	885,741	-3.13%
Guidance, counseling, evaluation and health services	274,689	274,936	-0.09%
Student (Pupil) Transportation	397,326	414,168	-4.07%
Food services	560,452	525,707	6.61%
Cocurricular activities	518,718	624,418	-16.93%
General administration	608,218	573,169	6.11%
Facilities maintenance & operations	1,120,744	1,174,315	-4.56%
Security and Monitoring Services	4,507	3,980	13.24%
Data processing services	147,424	142,568	3.41%
Debt services	576,132	212,165	171.55%
Payments to fiscal agent/member of SSA	526,047	625,709	-15.93%
Other intergovernmental charges	54,439	45,960	18.45%
Total Expenses	12,355,274	12,629,908	-2.17%
Increase (Decrease) in Net Position	3,153,198	793,972	297.14%
Net Position at Beginning of Year	10,184,508	9,390,536	8.46%
Net Position at Ending of Year	13,337,706	10,184,508	30.96%

THE DISTRICT'S FUNDS

Our analysis focuses on the net changes in fund balances (Table III) of the District's governmental funds.

Table III
Prairiland Independent School District
NET CHANGES IN FUND BALANCES

	Governmental Funds 2022	Governmental Funds 2021	Total \$ Change	Total % Change
Revenues:				
Local and Intermediate Sources	\$ 7,234,080	\$ 3,819,210	\$ 3,414,870	89.4%
State Program Revenues	7,677,160	8,079,706	(402,546)	-5.0%
Federal Program Revenues	1,197,791	1,385,811	(188,020)	-13.6%
Total Revenues	16,109,031	13,284,727	2,824,304	21.3%
Expenditures:				
Instruction	6,602,885	6,283,445	319,440	5.1%
Instructional resources & media services	118,003	123,704	(5,701)	-4.6%
Curriculum and instructional staff development	145,510	124,644	20,866	16.7%
School leadership	883,077	862,340	20,737	2.4%
Guidance, Counseling and Evaluation Services	147,116	142,375	4,741	3.3%
Health Services	137,211	125,113	12,098	9.7%
Food Services	564,688	398,613	166,075	41.7%
Student (Pupil) Transportation	481,099	507,569	(26,470)	-5.2%
Extracurricular activities	515,231	496,832	18,399	3.7%
General administration	607,807	558,371	49,436	8.9%
Facilities maintenance & operations	1,131,996	1,523,497	(391,501)	-25.7%
Security and Monitoring Services	4,241	1,813	2,428	133.9%
Data processing services	146,439	135,825	10,614	7.8%
Debt services	795,551	615,132	180,419	29.3%
Capital Outlay	4,622,040	162,823	4,459,217	2738.7%
Payments to fiscal agent/member of SSA	526,047	625,709	(99,662)	-15.9%
Other Intergovernmental Charges	54,439	45,960	8,479	18.4%
Total Expenditures	17,483,380	12,733,765	4,749,615	37.3%
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,374,349)	550,962	(1,925,311)	-349.4%
Other Financing Sources (Uses):				
Capital Related Debt Issued	7,100,000	2,150,000	4,950,000	230.2%
Transfers In	-	845,000	(845,000)	-100.0%
Premium or Discount on Issuance of Bonds	569,323	166,523	402,800	241.9%
Transfers Out (Use)	-	(845,000)	845,000	100.0%
Other (Uses)	-	(2,235,347)	2,235,347	100.0%
Total Other Financing Sources (Uses)	7,669,323	81,176	7,588,147	9347.8%
Net Change in Fund Balances	6,294,974	632,138	5,662,836	895.8%
Fund Balance - Beginning of Year	10,355,961	9,723,823	632,138	6.5%
Fund Balance - End of Year	\$ 16,650,935	\$ 10,355,961	\$ 6,294,974	60.8%

The cost of all *governmental* activities this year was \$17,483,380.

- However, the amount that our taxpayers paid for these activities through property taxes and Chapter 313 agreement was \$5,000,820.
- Some of the cost was paid by those who directly benefited from the programs \$82,506 or by grants and contributions \$1,149,646.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$16,109,031, an increase of 17.5% from the preceding year.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$1,141,810 below final budget amounts, and revenues were \$1,192,037 more than estimated amounts. The most significant positive variance resulted from instruction and instruction related services.

General Fund:

Increase (Decrease) in Local and Intermediate Sources	238,250
Increase (Decrease) in State Program Revenues	4,000
(Increase) in expenditure - Instruction	(119,000)
(Increase) in expenditure - Student (Pupil) Transportation	(10,000)
Decrease in expenditure - Extracurricular Activities	10,000
(Increase) in expenditure - General Administration	(38,750)
(Increase) in expenditure - Facilities Maintenance and Operations	(77,000)
(Increase) in expenditure - Facilities Acquisition and Construction	(195,000)
(Increase) in expenditure - Other Intergovernmental Charges	(7,500)
(Increase) in other financing sources (uses) - Transfers Out (Use)	(1,215,766)

Food Service Fund:

Increase (Decrease) in State Program Revenues	27,424
Increase (Decrease) in Federal Program Revenues	10,803
(Increase) in expenditure - Food Services	(38,227)

Debt Service Fund:

Increase (Decrease) in Local and Intermediate Sources	694,120
Decrease in expenditure - Principal on Long-Term Liabilities	350,340
(Increase) in expenditure - Interest on Long-Term Liabilities	(366,387)
(Increase) in expenditure - Bond Issuance Cost and Fees	(678,073)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2022, the District had invested \$15,997,809 in a broad range of capital assets, including land, equipment, buildings, and vehicles. This amount represents a net increase (including additions and deductions) of \$4,047,435 or 33.87% more than last year.

Long Term Debt

At year-end the District had \$13,602,000 in bonds and notes outstanding. More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The districts property valuations increased considerably due to added values of the Solar Farms that are now being completed. Local property taxes are restricted by state statute, without local elections which forces the district to lower its rate to \$0.8546 for maintenance and operations. The district increased the interest and sinking tax rate to \$0.2404 for the coming school year, which kept the overall tax rate the same as the previous year. The district's total tax rate for 2023 is \$1.095.

The 2023 budget is only slightly higher than the previous year mainly due to salary step increases and some building improvements. Student population is expected to increase over the previous school year, as students return from pandemic homeschooling.

These indicators were taken into account when adopting the general fund budget for 2023. Expenditures are expected to remain constant, even with increases for salaries. There are no expected changes in staffing other than adding staff for classrooms that are over the ratio of 22:1. The district will begin the 2023 with no teacher vacancies.

The district currently has entered into six chapter 313 agreements with various Solar Farms. There is also a seventh agreement in the works. The values of the farms will be added to the tax rolls over the next two to three years, until they reach completion. The agreements show that the businesses will invest over \$841,000,000 on a long term basis and receive a valuation limit of \$20,000,000 for M&O only. Each business will be valued fully for I&S tax rates. In addition to the tax limitation, the local businesses have committed to pay supplemental payments to the district in the amount of \$100 per ADA and to make revenue protection payments. The expected positive financial impact began in 2022 and will continue. The district will use the additional I&S funds to pay for bonds that will add additional buildings and improvements across the district.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 14,233,455
1120 Current Investments	3,104,925
1220 Property Taxes - Delinquent	594,300
1230 Allowance for Uncollectible Taxes	(158,424)
1240 Due from Other Governments	967,370
1267 Due from Fiduciary Funds	155
1300 Inventories	22,766
Capital Assets:	
1510 Land	202,342
1520 Buildings and Improvements, Net	10,284,305
1530 Furniture and Equipment, Net	656,590
1580 Construction in Progress	4,854,572
1000 Total Assets	<u>34,762,356</u>
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	276,501
1705 Deferred Outflow Related to TRS Pension	518,937
1706 Deferred Outflow Related to TRS OPEB	603,097
1700 Total Deferred Outflows of Resources	<u>1,398,535</u>
LIABILITIES	
2110 Accounts Payable	819,807
2140 Accrued Interest Payable	159,413
2150 Payroll Deductions and Withholdings	640
2160 Accrued Wages Payable	707,250
2180 Due to Other Governments	56,523
2200 Accrued Expenses	104,227
2300 Unearned Revenue	19,382
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	501,000
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	13,962,720
2540 Net Pension Liability (District's Share)	914,843
2545 Net OPEB Liability (District's Share)	2,564,679
2000 Total Liabilities	<u>19,810,484</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	1,095,756
2606 Deferred Inflow Related to TRS OPEB	1,916,945
2600 Total Deferred Inflows of Resources	<u>3,012,701</u>
NET POSITION	
3200 Net Investment in Capital Assets	5,559,582
Restricted:	
3820 Restricted for Federal and State Programs	56,789
3850 Restricted for Debt Service	1,050,861
3890 Restricted for Other Purposes	22,766
3900 Unrestricted	6,647,708
3000 Total Net Position	<u>\$ 13,337,706</u>

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 6,448,629	\$ 36,801	\$ 564,585	\$ (5,847,243)
12 Instructional Resources and Media Services	116,302	-	(1,379)	(117,681)
13 Curriculum and Instructional Staff Development	143,663	-	(1,426)	(145,089)
23 School Leadership	857,984	-	(10,775)	(868,759)
31 Guidance, Counseling, and Evaluation Services	141,592	-	(2,159)	(143,751)
33 Health Services	133,097	-	(1,921)	(135,018)
34 Student (Pupil) Transportation	397,326	-	(2,379)	(399,705)
35 Food Services	560,452	9,640	611,620	60,808
36 Extracurricular Activities	518,718	36,065	(3,930)	(486,583)
41 General Administration	608,218	-	3,682	(604,536)
51 Facilities Maintenance and Operations	1,120,744	-	(5,031)	(1,125,775)
52 Security and Monitoring Services	4,507	-	-	(4,507)
53 Data Processing Services	147,424	-	(1,241)	(148,665)
72 Debt Service - Interest on Long-Term Debt	405,809	-	-	(405,809)
73 Debt Service - Bond Issuance Cost and Fees	170,323	-	-	(170,323)
93 Payments Related to Shared Services Arrangements	526,047	-	-	(526,047)
99 Other Intergovernmental Charges	54,439	-	-	(54,439)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 12,355,274	\$ 82,506	\$ 1,149,646	(11,123,122)
Data				
Control				
Codes				
General Revenues:				
Taxes:				
MT	Property Taxes, Levied for General Purposes			3,705,323
DT	Property Taxes, Levied for Debt Service			1,295,497
SF	State Aid - Formula Grants			7,072,328
IE	Investment Earnings			76,377
MI	Miscellaneous Local and Intermediate Revenue			2,126,795
TR	Total General Revenues			14,276,320
CN	Change in Net Position			3,153,198
NB	Net Position - Beginning			10,184,508
NE	Net Position - Ending			\$ 13,337,706

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 9,394,221	\$ 3,633,451	\$ 1,205,783	\$ 14,233,455
1120 Investments - Current	3,104,925	-	-	3,104,925
1220 Property Taxes - Delinquent	498,754	-	95,546	594,300
1230 Allowance for Uncollectible Taxes	(133,356)	-	(25,068)	(158,424)
1240 Due from Other Governments	697,576	-	269,794	967,370
1260 Due from Other Funds	19,181	785,000	147,756	951,937
1300 Inventories	4,694	-	18,072	22,766
1000 Total Assets	<u>\$ 13,585,995</u>	<u>\$ 4,418,451</u>	<u>\$ 1,711,883</u>	<u>\$ 19,716,329</u>
LIABILITIES				
2110 Accounts Payable	\$ 127,607	\$ 692,134	\$ 66	\$ 819,807
2150 Payroll Deductions and Withholdings Payable	640	-	-	640
2160 Accrued Wages Payable	672,463	-	34,787	707,250
2170 Due to Other Funds	785,000	-	166,782	951,782
2180 Due to Other Governments	-	-	56,523	56,523
2200 Accrued Expenditures	98,557	-	5,670	104,227
2300 Unearned Revenue	-	-	19,382	19,382
2000 Total Liabilities	<u>1,684,267</u>	<u>692,134</u>	<u>283,210</u>	<u>2,659,611</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	<u>341,434</u>	<u>-</u>	<u>64,349</u>	<u>405,783</u>
2600 Total Deferred Inflows of Resources	<u>341,434</u>	<u>-</u>	<u>64,349</u>	<u>405,783</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	4,694	-	18,072	22,766
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	56,789	56,789
3470 Capital Acquisition and Contractual Obligation	-	3,726,317	-	3,726,317
3480 Retirement of Long-Term Debt	-	-	1,145,925	1,145,925
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	143,538	143,538
3600 Unassigned Fund Balance	11,555,600	-	-	11,555,600
3000 Total Fund Balances	<u>11,560,294</u>	<u>3,726,317</u>	<u>1,364,324</u>	<u>16,650,935</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 13,585,995</u>	<u>\$ 4,418,451</u>	<u>\$ 1,711,883</u>	<u>\$ 19,716,329</u>

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2022

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 16,650,935
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$24,779,598 and the accumulated depreciation was (\$12,829,224). In addition, long-term liabilities of (\$7,168,738), including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	4,781,636
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to decrease net position.	(2,558,308)
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$518,937, a deferred resource inflow in the amount of (\$1,095,756), and a net pension liability in the amount of (\$914,843). This resulted in an increase(decrease) in net position.	(1,491,662)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$603,097, a deferred resource inflow in the amount of (\$1,916,945), and a net OPEB liability in the amount of (\$2,564,679). This resulted in an increase(decrease) in net position.	(3,878,527)
5 The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(719,580)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	553,212
19 Net Position of Governmental Activities	\$ 13,337,706

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 5,745,974	\$ 19,812	\$ 1,468,294	\$ 7,234,080
5800 State Program Revenues	7,526,157	-	151,003	7,677,160
5900 Federal Program Revenues	-	-	1,197,791	1,197,791
5020 Total Revenues	13,272,131	19,812	2,817,088	16,109,031
EXPENDITURES:				
Current:				
0011 Instruction	5,958,981	-	643,904	6,602,885
0012 Instructional Resources and Media Services	117,144	-	859	118,003
0013 Curriculum and Instructional Staff Development	145,510	-	-	145,510
0023 School Leadership	805,433	-	77,644	883,077
0031 Guidance, Counseling, and Evaluation Services	147,116	-	-	147,116
0033 Health Services	137,211	-	-	137,211
0034 Student (Pupil) Transportation	481,099	-	-	481,099
0035 Food Services	12,686	-	552,002	564,688
0036 Extracurricular Activities	495,865	-	19,366	515,231
0041 General Administration	599,166	-	8,641	607,807
0051 Facilities Maintenance and Operations	1,131,996	-	-	1,131,996
0052 Security and Monitoring Services	4,241	-	-	4,241
0053 Data Processing Services	146,439	-	-	146,439
Debt Service:				
0071 Principal on Long-Term Liabilities	39,000	-	305,000	344,000
0072 Interest on Long-Term Liabilities	841	-	280,387	281,228
0073 Bond Issuance Cost and Fees	-	169,323	1,000	170,323
Capital Outlay:				
0081 Facilities Acquisition and Construction	206,368	4,415,672	-	4,622,040
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	526,047	-	-	526,047
0099 Other Intergovernmental Charges	54,439	-	-	54,439
6030 Total Expenditures	11,009,582	4,584,995	1,888,803	17,483,380
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	2,262,549	(4,565,183)	928,285	(1,374,349)
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued	-	7,100,000	-	7,100,000
7916 Premium or Discount on Issuance of Bonds	-	569,323	-	569,323
7080 Total Other Financing Sources (Uses)	-	7,669,323	-	7,669,323
1200 Net Change in Fund Balances	2,262,549	3,104,140	928,285	6,294,974
0100 Fund Balance - July 1 (Beginning)	9,297,745	622,177	436,039	10,355,961
3000 Fund Balance - June 30 (Ending)	\$ 11,560,294	\$ 3,726,317	\$ 1,364,324	\$ 16,650,935

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 6,294,974
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2022 capital outlays and debt principal payments is to decrease net position.	(2,558,308)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(719,580)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(67,988)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$147,317. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling (\$129,263). Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense (increased)decreased the change in net position by \$54,413. The net result is an increase(decrease) in the change in net position.	72,467
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$46,315. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling (\$43,568). Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense (increased)decreased the change in net position by \$128,886. The net result is an increase(decrease) in the change in net position.	131,633
Change in Net Position of Governmental Activities	\$ 3,153,198

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2022

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 129,669
Total Assets	<u>129,669</u>
LIABILITIES	
Due to Other Funds	<u>155</u>
Total Liabilities	<u>155</u>
NET POSITION	
Restricted for Other Purposes	<u>129,514</u>
Total Net Position	<u><u>\$ 129,514</u></u>

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Custodial Fund
ADDITIONS:	
Contributions to Student Groups	\$ 300,905
Total Additions	<u>300,905</u>
DEDUCTIONS:	
Other Deductions	<u>309,214</u>
Total Deductions	<u>309,214</u>
Change in Fiduciary Net Position	(8,309)
Total Net Position July 1 (Beginning)	<u>137,823</u>
Total Net Position June 30 (Ending)	<u><u>\$ 129,514</u></u>

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

A. Summary of Significant Accounting Policies

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

Prairiland Independent School District implemented Governmental Accounting Standards Board (GASB) Number 84 *Fiduciary Activities* to improve identification of fiduciary activities for accounting and financial reporting purposes in the current year.

The District implemented Governmental Accounting Standards Board (GASB) Number 87 Leases to improve accounting and financial reporting for leases by governments. A right-to-use lease is defined as a contract that conveys control of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "long-term" lease provided in GASB 87 and must meet the capitalization level set by the Board. The right-to-use lease liability is reported in the government-wide statements. The lease liability is calculated as present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense. The District did not have any material leases individually or in the aggregate for the fiscal year.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

The District reports the following major governmental funds:

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

Capital Projects Fund: This fund is established to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds account for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

3. Financial Statement Amounts

a. Cash Equivalents

The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

b. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Resources. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received.

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

d. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

e. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

f. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

g. Receivable and Payable Balances

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

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

h. Interfund Activity

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

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

j. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. The general fund only reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

Fund Balance Policy - In an effort to provide adequate cash flow for operations, maintain a strong credit rating, and plan for unanticipated extraordinary costs, the District shall strive to maintain in the general fund an unassigned fund balance of at least two months operations.

l. 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.

m. 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.

n. Compensated Absences

On retirement or death of certain employees, the District pays an accrued sick leave up to 100 days at \$50 a day, in lump sum payment to such employee or his/her estate. Employees can bring days from other districts but are required to work at Prairiland at least 5 years to be eligible.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

o. Workers' Compensation Plan

For the year ended June 30, 2022 the District was a member of School Comp Insurance Fund, a public entity risk pool administered by Creative Risk Funding, Inc., for workers' compensation insurance coverage.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' 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.

5. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPES liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPES expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) 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.

B. Compliance and Accountability

1. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

2. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund, which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports appear in Exhibit J-2 and J-3.

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

1. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.

Significant budget amendments were as follows:

General Fund:	
Increase (Decrease) in Local and Intermediate Sources	238,250
Increase (Decrease) in State Program Revenues	4,000
(Increase) in expenditure - Instruction	(119,000)
(Increase) in expenditure - Student (Pupil) Transportation	(10,000)
Decrease in expenditure - Extracurricular Activities	10,000
(Increase) in expenditure - General Administration	(38,750)
(Increase) in expenditure - Facilities Maintenance and Operations	(77,000)
(Increase) in expenditure - Facilities Acquisition and Construction	(195,000)
(Increase) in expenditure - Other Intergovernmental Charges	(7,500)
(Increase) in other financing sources (uses) - Transfers Out (Use)	(1,215,766)
Food Service Fund:	
Increase (Decrease) in State Program Revenues	27,424
Increase (Decrease) in Federal Program Revenues	10,803
(Increase) in expenditure - Food Services	(38,227)
Debt Service Fund:	
Increase (Decrease) in Local and Intermediate Sources	694,120
Decrease in expenditure - Principal on Long-Term Liabilities	350,340
(Increase) in expenditure - Interest on Long-Term Liabilities	(366,387)
(Increase) in expenditure - Bond Issuance Cost and Fees	(678,073)

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

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes. The District's goal is for the Food Service program to be self-supporting with regard to food service operations; however, the program is not charged for utilities, insurance and some maintenance items.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget Nonmajor Governmental Special Revenue Funds is as follows:

	June 30, 2022
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	74,861
Nonappropriated Budget Funds	<u>1,289,463</u>
All Nonmajor Governmental Special Revenue Funds	<u><u>1,364,324</u></u>

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

C. Deposits and Investments

District Policies and Legal and Contractual Provisions Governing Deposits:

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

The captions and amounts of cash and cash equivalents on the balance sheet and statement of fiduciary net position at June 30, 2022 consist of the following:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds	Custodial Fund
Cash and Cash Equivalents	9,394,221	3,633,451	1,205,783	14,233,455	129,669
Certificates of Deposit	3,104,925	-	-	3,104,925	-
Total Cash in Bank	<u>12,499,146</u>	<u>3,633,451</u>	<u>1,205,783</u>	<u>17,338,380</u>	<u>129,669</u>

The District had no other funds invested at June 30, 2022.

The District's cash deposits at June 30, 2022 and during the year ended June 30, 2022 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the District's investment policies and types of investments. The District's management believes that it complied with the requirements of the PFIA and the District's investment policies.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

D. Capital Assets

Capital Asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balances	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets not being depreciated:				
Land	\$ 202,342	\$ -	\$ -	\$ 202,342
Construction in progress	414,032	4,440,540		4,854,572
Total capital assets not being depreciated	616,374	4,440,540	-	5,056,914
Capital assets being depreciated:				
Buildings and improvements	20,837,216	205,679	-	21,042,895
Equipment & vehicles	3,326,008	120,796	(13,267)	3,433,537
Total capital assets being depreciated	24,163,224	326,475	(13,267)	24,476,432
Less accumulated depreciation:				
Buildings and improvements	(10,221,058)	(537,532)	-	(10,758,590)
Equipment & vehicles	(2,608,166)	(182,048)	13,267	(2,776,947)
Total accumulated depreciation	(12,829,224)	(719,580)	13,267	(13,535,537)
Total capital assets being depreciated, net	11,334,000	(393,105)	-	10,940,895
Governmental activities capital assets, net	\$ 11,950,374	\$ 4,047,435	\$ -	\$ 15,997,809

The tennis court project had prior year costs of \$251,209; no additional costs were incurred during the current year. Drainage issues prevented the completion of this project, thus costs are still reflected in construction in progress. These issues are expected to be resolved in fiscal year 2023. In 2021, the District entered into a new construction contract with Harrison Walker & Harper in the amount of \$709,933 for Blossom Elementary Drive. Prior year costs of this project were \$162,823. An additional cost of \$619,688 were incurred in the current year, totaling project costs to \$782,511. These costs are also reflected in construction in progress.

In the current year, the District entered into a construction contract with Harrison Walker & Harper in the amount of \$4,227,861 for additions to Blossom Elementary. Current year costs totaled \$1,707,401 and is reflected in construction in progress. The District also entered into a construction contract with Harrison Walker & Harper in the amount of \$200,354 for Junior High construction demolition. Current year costs, including abatement fees, incurred were \$225,223 and is reflected in construction in progress. The District entered into a construction contract with Harrison Walker & Harper in the amount of \$4,073,287 for construction at the Junior High. Current year costs incurred were \$1,691,203 and is reflected in construction in progress. The District incurred \$197,025 of architect fees for the future construction of a CTE building.

During the current year, the District spent \$181,500 on land improvements including resurfacing the track, building a pad for a pavilion and outdoor basketball court and building a sidewalk. The District replaced bleachers in the amount of \$24,179. The District also purchased a 71 passenger bus, a Ford F350 maintenance truck, a lawn mower and a floor scrubber with total costs of \$120,796.

In the current year the District disposed of fully depreciated equipment and vehicles in the amount of \$13,267.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

Depreciation was charged to functions as follows:

11	Instruction	\$ 414,120
12	Instructional resources and media services	7,401
13	Curriculum and instructional staff development	9,126
23	School leadership	55,385
31	Guidance, counseling, and evaluation services	9,227
33	Health services	8,606
34	Student transportation	30,174
35	Food services	35,416
36	Cocurricular/Extracurricular activities	32,314
41	General administration	38,120
51	Plant maintenance and operations	70,241
52	Security and monitoring services	266
53	Data processing services	9,184
		<u>\$ 719,580</u>

E. Interfund Balances and Activities

1. Due to and From Other Funds:

<u>Due to Fund:</u>		<u>Due from Fund:</u>	
865-Custodial Fund	\$ 155	199-General Fund	\$ 155
199-General Fund	785,000	699-Capital Projects	785,000
199-General Fund	19,026	Other Nonmajor Special Revenue Funds	19,026
Total	<u>\$ 804,181</u>	Total	<u>\$ 804,181</u>

F. Bonds Payable and Debt Service Requirements

Bonded indebtedness and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Long-term debt includes general obligation serial bonds. Bond premiums and discounts are amortized using the effective interest method.

In 2011, the District issued Unlimited Tax Refunding Bonds, Series 2011 in the amount of \$3,360,000. In the governmental fund financial statements, bond indebtedness of the District current requirement for principal and interest expenditure are accounted for in the Debt Service Fund. The District paid \$170,000 in principal and \$3,400 in interest.

In 2012, the District issued Unlimited Tax Refunding Bonds, Series 2012 in the amount of \$4,965,000. In the governmental fund financial statements, bond indebtedness of the District current requirement for principal and interest expenditure are accounted for in the Debt Service Fund. The District paid \$105,000 in principal and \$153,850 in interest.

In 2021, the District issued Unlimited Tax Refunding Bonds, Series 2020 in the amount of \$2,150,000 to refund Series 2011. The escrow payment of \$2,235,347 was used to provide debt service payments on the Series 2011 when called on August 15, 2021. The remaining payment of \$170,000 was paid in 2022. As a result, the Series 2011 has an outstanding balance of \$0 as of June 30, 2022. The refunding resulted in a gross savings of \$214,189 and net present value benefit of \$195,931. In the governmental fund financial statements, bond indebtedness of the District current requirement for principal and interest expenditure are accounted for in the Debt Service Fund. The District paid \$30,000 in principal and \$71,662 in interest.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

In 2022, the District issued Unlimited Tax Building Bonds, Series 2021 in the amount of \$7,100,000. Bond proceeds are accounted for in the Capital Projects Fund as other financing sources in the amount of \$7,100,000, \$569,323 for premium on issuance of bonds and \$169,323 for issuance fees. Bond indebtedness of the District current requirement for principal and interest expenditure are accounted for in the Debt Service Fund. The District paid \$0 in principal and \$51,475 in interest in the current year.

The following is a summary of the changes in the District's general long-term debt for the year ended June 30, 2022:

<u>Description</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amounts Outstanding 7/1/2021</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 6/30/2022</u>
Unlimited Tax Refunding Series 2011	2% - 4%	3,360,000	170,000	- (a)	170,000	-
Unlimited Tax Refunding Series 2012	2%	4,965,000	4,305,000	- (a)	105,000	4,200,000
Unlimited Tax Refunding Series 2020	1.79% - 5%	2,150,000	2,150,000	(a)	30,000	2,120,000
Unlimited Tax Building Bonds, Series 2021	3%	7,100,000	- (b)	7,100,000	-	7,100,000
Total General Obligations			<u>6,625,000</u>	<u>7,100,000</u>	<u>305,000</u>	<u>13,420,000</u>

(a) Annual debt payments total \$305,000

(b) Issuance of bond \$7,100,000

Bonded debt service requirements are as follows:

<u>General Obligation Bonds</u>			
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	460,000	427,875	887,875
2024	510,000	409,562	919,562
2025	500,000	390,174	890,174
2026	465,000	371,299	836,299
2027	445,000	352,974	797,974
2028-2032	2,650,000	1,535,767	4,185,767
2033-2037	2,810,000	1,132,570	3,942,570
2038-2042	1,930,000	690,425	2,620,425
2043-2047	2,060,000	423,600	2,483,600
2048-2052	1,590,000	150,450	1,740,450
Total	<u>13,420,000</u>	<u>5,884,696</u>	<u>19,304,696</u>

In the government-wide financial statements, bonded indebtedness of the District is reflected in the Statement of Net Position. Premium on issuance of bonds, net of accumulated amortization, totaled \$839,045 at June 30, 2022. Bond premium/discount proceeds are deferred and amortized over the life of the bonds. Premium/discount proceeds on the issuance of the Bonds, Series 2021 of \$569,323 was added during the year ended June 30, 2022. The current year amortization for the premium/discount of \$53,016 is reflected in the Statement of Activities for the year ended June 30, 2022.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

	Series 2012	Series 2020	Series 2021	Total
Premium on bonds	162,846	159,892	-	322,738
Premium issuance	-	-	569,323	569,323
Current year amortization	(13,724)	(31,924)	(7,368)	(53,016)
	<u>149,122</u>	<u>127,968</u>	<u>561,955</u>	<u>839,045</u>

The deferred charge on refunding bonds, net of accumulated amortization, totaled \$276,501 at June 30, 2022. Amortization of \$31,305 is reflected in the Statement of Activities for the year ended June 30, 2022.

	Series 2012	Series 2020	Total
Deferred Charge on Refunding	261,329	46,477	307,806
Current Year Amortization	(22,025)	(9,280)	(31,305)
Total	<u>239,304</u>	<u>37,197</u>	<u>276,501</u>

Prairiland Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 12c2-12 to enable investors to analyze the financial condition and operations of Prairiland Independent School District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions as June 30, 2022.

G. Maintenance Tax Note Obligations

In 2011, the District issued \$500,000 of qualified school construction bonds. The bonds had a stated rate of 6.68% and will mature in 2025. In the governmental fund financial statements, maintenance tax note obligations of the District current requirements are accounted for in the General Fund in Function 71, 72 and 73 – Debt Service for payment of principal, interest and fees, respectively. During the year ended June 30, 2022, the District paid \$39,000 in principal and \$14,763 in interest, less \$13,922 of tax credit.

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A summary of changes in Maintenance Tax Note Obligations for the year ended June 30, 2022 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amounts Outstanding 7/1/2021</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 6/30/2022</u>
Maintenance Tax Notes, 2011	6.68%	500,000	221,000	-	39,000	182,000
			<u>221,000</u>	<u>-</u>	<u>39,000</u>	<u>182,000</u>

Maintenance Tax Note Obligations requirements are as follows:

Maintenance Tax Note Obligations Direct Borrowing			
<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	41,000	12,158	53,158
2024	44,000	9,419	53,419
2025	47,000	6,480	53,480
2026	50,000	3,340	53,340
Total	<u>182,000</u>	<u>31,397</u>	<u>213,397</u>

H. Accumulated Leave Benefits Payable

In May 2002, the District adopted a new policy regarding the payment of accumulated leave upon retirement from Prairiland Independent School District. Employees earn leave, which may either be taken or accumulated until paid upon retirement. Leave benefits payable at June 30, 2022 totaled \$98,845. A summary of changes in the accumulated leave liability follows:

Balance July 1, 2021	26,850
Additions	-
Deductions	<u>(4,175)</u>
Balance June 30, 2022	<u>22,675</u>

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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I. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Unlimited Tax Refunding Bonds, Series 2011					
Current Interest Bonds	170,000	-	170,000	-	-
Unlimited Tax Refunding Bonds, Series 2012					
Current Interest Bonds	4,305,000	-	105,000	4,200,000	110,000
Unlimited Tax Refunding Bonds, Series 2020					
Current Interest Bonds	2,150,000	-	30,000	2,120,000	195,000
Unlimited Tax Refunding Bonds, Series 2020					
Current Interest Bonds	-	7,100,000	-	7,100,000	155,000
Maintenance Tax Notes, 2011	221,000	-	39,000	182,000	41,000
Total General Obligations	6,846,000	7,100,000	344,000	13,602,000	501,000
Unamortized Premium					
Series 2012	162,846	-	13,724	149,122	-
Series 2020	159,892	-	31,924	127,968	-
Series 2021	-	569,323	7,368	561,955	-
Compensated Absences	26,850	-	4,175	22,675	-
Net Pension Liability	1,867,974	-	953,131	914,843	-
Net OPEB Liability	2,594,252	22,368	51,941	2,564,679	-
Subtotal	4,811,814	591,691	1,062,263	4,341,242	-
Total Governmental Activities	11,657,814	7,691,691	1,406,263	17,943,242	501,000

J. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2022, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

K. Defined Benefit Pension Plan (TRS)

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

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

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

Pension Plan Fiduciary Net Position. Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/Pages/about/publications.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 Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

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

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

	Contribution Rates	
	2021	2022
Member (Employees)	7.70%	8.00%
Employer (District)	7.50%	7.75%
Non-Employer Contributing Entity (State)	7.50%	7.75%
Member Contributions	508,885	537,945
Employer Contributions	153,096	171,356
NECE On-Behalf Contributions	439,814	440,370

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

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

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

In addition to the employer contributions listed above, there is an additional surcharge an employer is subject to:

- All public schools, charter schools, and regional educational service centers must contribute 1.5% of the member's salary beginning in fiscal year 2021, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-Term Expected Rate	7.25%
	1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/
	Data Municipal bonds with 20 years to maturity that include only federally taxexempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Municipal Bond Rate as of August 2020	
Last year ending August 31 in	
Projection Period (100) years	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2020.

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

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

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2021 are summarized below:

Asset Class¹	Target Allocation %²	Long-Term Expected Arithmetic Real Rate of Return³	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0%	3.6%	0.94%
Non-U.S. Development	13.0%	4.4%	0.83%
Emerging Markets	9.0%	4.6%	0.74%
Private Equity	14.0%	6.3%	1.36%
Stable Value			
Government Bonds	16.0%	-0.2%	0.01%
Absolute Return	0.0%	1.1%	0.00%
Stable Value Hedge	5.0%	2.2%	0.12%
Real Return			
Real Estate	15.0%	4.5%	1.00%
Energy, Natural Reserves	6.0%	4.7%	0.35%
Commodities	0.0%	1.7%	0.00%
Risk Parity			
Risk Parity	8.0%	2.8%	0.28%
Leverage			
Cash	2.0%	-0.7%	-0.01%
Asset Allocation Leverage	-6.0%	-0.5%	0.03%
Inflation Expectation			2.20%
Volatility Drag⁴			-0.95%
Total	100.00%		6.90%

¹ Absolute Return includes Credit Sensitive Investments

² Target Allocations are based on the FY2021 policy model

³ Capital Asset Market Assumptions come from Aon Hewitt (as of 8/31/2021).

⁴ The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis. The following table presents the Net Pension Liability of the plan using the discount rate of 7.25%, and what the net pension liability would be if it were calculated using a discount rate that is one % point lower (6.25%) or one % point higher (8.25%) than the current rate.

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
Proportionate Share of the Net Pension Liability	\$ 1,999,077	\$ 914,843	\$ 35,200

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2022, Prairiland ISD reported a liability of \$914,843 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Prairiland ISD. The amount recognized by Prairiland ISD as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Prairiland ISD were as follows:

District's Proportionate Share of the Collective Net Pension Liability	\$ 914,843
State's Proportionate Share that is Associated with District	2,627,939
Total	<u>\$ 3,542,782</u>

The net pension liability was measured as of August 31, 2020 and rolled forward to August 31, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2021 the employer's proportion of the collective net pension liability was .0035923436% which was an increase (decrease) of (0.0001045819%) from its proportion measured as of August 31, 2020.

Changes Since the Prior Actuarial Valuation -

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

For the year ended June 30, 2022, Prairiland School recognized pension expense of \$85,356 and revenue of \$10,506 for support provided by the State.

At June 30, 2022, Prairiland School reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Economic Experience	1,531	64,406
Changes in Actuarial Assumptions	323,379	140,966
Net Difference between projected and actual investment earnings	-	767,084
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	46,710	123,300
Total as of August 31, 2021 measurement date	371,620	1,095,756
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	147,317	-
Total as of June 30, 2022 fiscal year end	518,937	1,095,756

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

Year Ended June 30,	Pension Expense Amount
2023	\$ (132,903)
2024	(138,901)
2025	(199,078)
2026	(247,892)
2027	(5,992)
Thereafter	630
Total	<u>\$ (724,136)</u>

L. Defined Other Post-Employment Benefit Plans

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

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

The TRS Board of Trustees administers the TRS- Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS 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/Pages/aboutpublications.aspx>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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

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

TRS-Care Monthly Premium Rates

	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

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

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>2021</u>	<u>2022</u>
Active Employee	0.65%	0.65%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Member Contributions	42,959	43,974
Employer Contributions	52,029	54,688
Measurement Year NECE On-behalf Contributions	69,700	69,589

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether they participate in the TRS Care OPEB Program). When hiring a TRA retiree, employers are required to pay TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$5,520,343 in fiscal year 2021 for consumer protections against medical and health care billing by certain out-of-network providers.

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Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2021. The actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan specific experience Third-party administrative expenses related to the delivery of health care benefits are included in the age- adjusted claims costs.
Expenses	
Salary Increases	3.05% to 9.05%, including inflation
Ad Hoc Post-Employment Benefit Changes	None

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. 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, 2020 TRS pension actuarial valuation that was rolled forward to August 31, 2021:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. 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 mortality projection scale (MP-2018).

Discount Rate. A single discount rate of 1.95% was used to measure the total OPEB liability. There was a decrease of .38 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity “20-year Municipal GO AA Index” as of August 31, 2021 using the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% point lower than and 1% point higher than the discount rate that was used (2.33%) in measuring the Net OPEB Liability.

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	1% Decrease in Discount Rate (0.95%)	Discount Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District's Proportionate Share of Net OPEB Liability	\$ 3,093,593	\$ 2,564,679	\$ 2,148,405

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2022 the District reported a liability of \$2,564,679 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate Share of the Collective Net OPEB Liability	\$ 2,564,679
State's Proportionate Share that is Associated with District	3,436,098
Total	<u>\$ 6,000,777</u>

The Net OPEB Liability was measured as of August 31, 2020 and rolled forward to August 31, 2021 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2022 the employer's proportion of the collective Net OPEB Liability was 0.0066486428%, compared to (0.0001757298%) as of August 31, 2021.

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

	1% Decrease	Current Healthcare Cost Trend Rate (8.5%)	1% Increase
District's Proportionate Share of Net OPEB Liability	\$ 2,077,305	\$ 2,564,679	\$ 3,218,613

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

- The discount rate changed from 2.33 percent as of August 31, 2020 to 1.95 percent as of August 31, 2021.
- This change increased the Total OPEB Liability.

Changes of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

The amount of OPEB expense recognized by the District in the reporting period was \$212,136.

At June 30, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources: (The amounts shown below will be the cumulative layers for the current and prior years combined.)

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Economic Experience	110,422	1,241,484
Changes in Actuarial Assumptions	284,068	542,382
Net Difference between projected and actual investment earnings	2,785	-
Changes in proportion and difference between the employer's contributions and	159,507	133,079
Total as of August 31, 2021 measurement date	556,782	1,916,945
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	46,315	-
Total as of June 30, 2022 fiscal year end	603,097	1,916,945

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

Year Ended June 30,	Pension Expense Amount
2023	\$ (261,531)
2024	(261,594)
2025	(261,578)
2026	(194,068)
2027	(102,672)
Thereafter	(278,720)
Total	<u>\$ (1,360,163)</u>

For the year ended June 30, 2022, the District recognized OPEB expense of \$(212,136) and revenue of \$(126,818) for support provided by the State.

M. 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 the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended June 30, 2021, 2020, and 2019, the subsidy payments received by TRS-Care on behalf of the District were \$21,536, \$32,654, and \$27,417, respectively.

N. Employee Health Care Coverage

During the year ended June 30, 2022, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$351 per pay period per employee and dependents to the Plan. All premiums were paid to a self-funded pool. The Plan was authorized by Article 3.51- 2, Texas Insurance Code and was documented by contractual agreement.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

O. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at June 30, 2022.

P. Shared Services Arrangements

The fiscal agent receives the monies from TEA and Region VIII and administers the program. The Fiscal agent manages the shared services arrangement's financial matters, including budgeting, accounting, auditing and reporting. Certain management decisions may be made by an executive board or committee of participating members.

The District participates in a shared services arrangement ("SSA") for a federal program with the following fiscal agents.

<u>Program</u>	<u>Fiscal Agent</u>
IDEA-B Formula	North Lamar ISD for Lamar County Cooperative
IDEA-B Preschool	North Lamar ISD for Lamar County Cooperative
Carl Perkins	Region VIII Education Service Center for Lamar County Cooperative
Title III Part A	Region VIII Education Service Center for Lamar County Cooperative

The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Prairiland ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

Q. Tax Abatements

Prairiland ISD entered into property tax abatement agreements with local businesses under Texas Tax Code, Title 3. Subtitle B. Chapter 313. Texas Economic Development Act (the Act), beginning March 11, 2019. Under the Act, Texas school districts may grant property tax abatements according to the category of taxable value of property in the District for the preceding tax year. Prairiland Independent School District is a Category III district which limits the minimum amount per qualified investment to \$20 million. The qualified property is limited only from the maintenance and operation property tax. The tax abatements, which are approved by the Texas Comptroller's office and the District's board of trustees, are granted for the purpose of enhancing the local community; improving the public education system; creating high-paying jobs; and advancing the economic development goals.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

At June 30, 2021 the District had entered into four completed Chapter 313 agreements with Samson Solar Energy, Samson Solar Energy II, LLC, Samson Solar Energy III, LLC and G.S.E. Twelve Solar. The completed agreements were for the local businesses to invest a combined capital of \$841,000,000 on a long-term basis for a minimum valuation limitation of \$20,000,000 per agreement. During the fiscal year June 30, 2022, the District added a Chapter 313 agreement with Impact Solar. The completed agreements were for the local businesses to invest a combined capital of \$193,067,620 on a long-term basis for a minimum valuation limitation of \$20,000,000. The calculated indemnity payment of \$1,509,150 was paid to the district in the current year.

In addition to the tax abatement, the local businesses have committed to pay supplemental payments to the district in the amount of \$100 per ADA. These companies paid a total of \$233,300 to the District in the current year.

R. Revenue from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources consisted of the following:

<u>Revenue Sources</u>	General Fund	Capital Service Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Governmental Funds Total
Property taxes & related income	\$ 5,111,098	\$ -	\$ 1,307,046	\$ -	\$ 6,418,144
Chapter 313 revenue	233,300	-	-	-	233,300
Investment income	48,130	19,812	8,435	-	76,377
Tuition & Fees	36,802	-	-	-	36,802
Food service revenue		-	-	9,640	9,640
Athletics/Cocurricular	36,065	-	-	140,956	177,021
Other local and intermediate sources	280,579	-	-	2,217	282,796
	<u>\$ 5,745,974</u>	<u>\$ 19,812</u>	<u>\$ 1,315,481</u>	<u>\$ 152,813</u>	<u>\$ 7,234,080</u>

S. Subsequent Events

Management has evaluated subsequent events through November 11, 2022, the date the financials were available to be distributed and noted no other events to be disclosed.

REQUIRED SUPPLEMENTARY INFORMATION

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,906,803	\$ 4,145,053	\$ 5,745,974	\$ 1,600,921
5800 State Program Revenues	7,930,541	7,934,541	7,526,157	(408,384)
5900 Federal Program Revenues	500	500	-	(500)
5020 Total Revenues	11,837,844	12,080,094	13,272,131	1,192,037
EXPENDITURES:				
Current:				
0011 Instruction	6,362,960	6,481,960	5,958,981	522,979
0012 Instructional Resources and Media Services	142,551	142,551	117,144	25,407
0013 Curriculum and Instructional Staff Development	166,480	166,480	145,510	20,970
0023 School Leadership	836,734	836,734	805,433	31,301
0031 Guidance, Counseling, and Evaluation Services	153,673	153,673	147,116	6,557
0033 Health Services	137,007	137,007	137,211	(204)
0034 Student (Pupil) Transportation	492,753	502,753	481,099	21,654
0035 Food Services	24,250	24,250	12,686	11,564
0036 Extracurricular Activities	631,399	621,399	495,865	125,534
0041 General Administration	610,480	649,230	599,166	50,064
0051 Facilities Maintenance and Operations	1,260,250	1,337,250	1,131,996	205,254
0052 Security and Monitoring Services	10,000	10,000	4,241	5,759
0053 Data Processing Services	184,605	184,605	146,439	38,166
Debt Service:				
0071 Principal on Long-Term Liabilities	39,000	39,000	39,000	-
0072 Interest on Long-Term Liabilities	5,000	5,000	841	4,159
Capital Outlay:				
0081 Facilities Acquisition and Construction	75,000	270,000	206,368	63,632
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	535,000	535,000	526,047	8,953
0099 Other Intergovernmental Charges	47,000	54,500	54,439	61
6030 Total Expenditures	11,714,142	12,151,392	11,009,582	1,141,810
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	123,702	(71,298)	2,262,549	2,333,847
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(123,702)	(1,339,468)	-	1,339,468
1200 Net Change in Fund Balances	-	(1,410,766)	2,262,549	3,673,315
0100 Fund Balance - July 1 (Beginning)	9,297,745	9,297,745	9,297,745	-
3000 Fund Balance - June 30 (Ending)	\$ 9,297,745	\$ 7,886,979	\$ 11,560,294	\$ 3,673,315

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Pension Liability (Asset)	0.003592344%	0.003487762%	0.003856724%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 914,843	\$ 1,867,974	\$ 2,004,846
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	2,627,939	5,709,022	4,982,277
Total	<u>\$ 3,542,782</u>	<u>\$ 7,576,996</u>	<u>\$ 6,987,123</u>
District's Covered Payroll	\$ 6,610,805	\$ 6,580,433	\$ 5,882,021
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	13.84%	28.39%	34.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.79%	75.54%	75.24%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2021 for year 2022, August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

FY 2019 Plan Year 2018		FY 2018 Plan Year 2017		FY 2017 Plan Year 2016		FY 2016 Plan Year 2015		FY 2015 Plan Year 2014	
0.003845376%		0.00388312%		0.003970222%		0.0041902%		0.0018565%	
\$	2,116,588	\$	1,241,612	\$	1,500,288	\$	1,481,180		495,897
5,559,655		3,338,890		4,128,195		3,996,795		3,338,835	
\$	7,676,243	\$	4,580,502	\$	5,628,483	\$	5,477,975	\$	3,834,732
\$	5,819,508	\$	5,717,791	\$	5,722,339	\$	5,579,402		5,294,601
36.37%		21.71%		26.22%		26.55%		9.37%	
73.74%		82.17%		78.00%		78.43%		83.25%	

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2022

	2022	2021	2020
Contractually Required Contribution	\$ 171,356	\$ 153,096	\$ 201,388
Contribution in Relation to the Contractually Required Contribution	(171,356)	(153,096)	(201,388)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 6,765,404	\$ 6,609,783	\$ 6,470,531
Contributions as a Percentage of Covered Payroll	2.53%	2.32%	3.11%

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

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

2019		2018		2017		2016		2015	
\$	132,779	\$	130,015	\$	127,497	\$	124,961	\$	110,911
	(132,779)		(130,015)		(127,497)		(124,961)		(110,911)
\$	-	\$	-	\$	-	\$	-	\$	-
\$	5,836,831	\$	5,796,356	\$	5,759,199	\$	5,652,891	\$	5,556,141
	2.27%		2.24%		2.21%		2.21%		2.00%

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.006648643%	0.006824373%	0.006654848%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 2,564,679	\$ 2,594,252	\$ 3,147,161
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	3,436,098	3,486,053	4,181,871
Total	<u>\$ 6,000,777</u>	<u>\$ 6,080,305</u>	<u>\$ 7,329,032</u>
District's Covered Payroll	\$ 6,610,805	\$ 6,580,433	\$ 5,882,021
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	38.80%	39.42%	53.50%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.18%	4.99%	2.66%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. The amounts reported for FY 2022 are for measurement date August 31, 2021. The amounts reported for FY 2021 are for the measurement date of August 31, 2020. The amounts for FY 2020 are for the measurement date August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

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

FY 2019 Plan Year 2018		FY 2018 Plan Year 2017	
0.006743281%		0.006520663%	
\$	3,366,982	\$	2,835,592
	5,067,301		4,557,180
\$	8,434,283	\$	7,392,772
\$	5,826,738	\$	5,717,791
	57.79%		49.59%
	1.57%		0.91%

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2022

	2022	2021	2020
Contractually Required Contribution	\$ 54,688	\$ 52,029	\$ 50,984
Contribution in Relation to the Contractually Required Contribution	(54,688)	(52,029)	(50,984)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 6,765,404	\$ 6,609,783	\$ 6,470,531
Contributions as a Percentage of Covered Payroll	0.81%	0.79%	0.79%

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

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

<u>2019</u>		<u>2018</u>	
\$	46,886	\$	768,215
	(46,886)		(768,215)
<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>
\$	5,844,060	\$	5,796,356
	0.80%		13.25%

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022**

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms.

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

Changes of Assumptions.

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

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefits.

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

Changes in Assumptions.

The single discount rate changed from 2.33 percent as of August 31, 2020 to 1.95 percent as of August 31, 2021. This change increased the total OPEB liability.

COMBINING SCHEDULES

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2022

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	266 ESSER -School Emergency Relief -CARES
ASSETS					
1110	Cash and Cash Equivalents	\$ (131,990)	\$ 11,984	\$ -	\$ 148,477
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1240	Due from Other Governments	77,576	-	12,730	-
1260	Due from Other Funds	63,758	83,843	-	-
1300	Inventories	-	18,072	-	-
1000	Total Assets	<u>\$ 9,344</u>	<u>\$ 113,899</u>	<u>\$ 12,730</u>	<u>\$ 148,477</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ 66	\$ -	\$ -
2160	Accrued Wages Payable	7,772	27,015	-	-
2170	Due to Other Funds	-	-	12,730	148,477
2180	Due to Other Governments	-	-	-	-
2200	Accrued Expenditures	1,572	4,098	-	-
2300	Unearned Revenue	-	7,859	-	-
2000	Total Liabilities	<u>9,344</u>	<u>39,038</u>	<u>12,730</u>	<u>148,477</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable Fund Balance:					
3410	Inventories	-	18,072	-	-
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	56,789	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>74,861</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,344</u>	<u>\$ 113,899</u>	<u>\$ 12,730</u>	<u>\$ 148,477</u>

282 ESSER III ARP Act	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ (174,065)	\$ 2,949	\$ 11,523	\$ -	\$ 143,383	\$ 12,261	\$ 1,193,522	\$ 1,205,783
-	-	-	-	-	-	95,546	95,546
-	-	-	-	-	-	(25,068)	(25,068)
174,065	2,626	-	-	-	266,997	2,797	269,794
-	-	-	-	155	147,756	-	147,756
-	-	-	-	-	18,072	-	18,072
<u>\$ -</u>	<u>\$ 5,575</u>	<u>\$ 11,523</u>	<u>\$ -</u>	<u>\$ 143,538</u>	<u>\$ 445,086</u>	<u>\$ 1,266,797</u>	<u>\$ 1,711,883</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66	\$ -	\$ 66
-	-	-	-	-	34,787	-	34,787
-	5,575	-	-	-	166,782	-	166,782
-	-	-	-	-	-	56,523	56,523
-	-	-	-	-	5,670	-	5,670
-	-	11,523	-	-	19,382	-	19,382
<u>-</u>	<u>5,575</u>	<u>11,523</u>	<u>-</u>	<u>-</u>	<u>226,687</u>	<u>56,523</u>	<u>283,210</u>
-	-	-	-	-	-	64,349	64,349
-	-	-	-	-	-	64,349	64,349
-	-	-	-	-	18,072	-	18,072
-	-	-	-	-	56,789	-	56,789
-	-	-	-	-	-	1,145,925	1,145,925
-	-	-	-	143,538	143,538	-	143,538
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,538</u>	<u>218,399</u>	<u>1,145,925</u>	<u>1,364,324</u>
<u>\$ -</u>	<u>\$ 5,575</u>	<u>\$ 11,523</u>	<u>\$ -</u>	<u>\$ 143,538</u>	<u>\$ 445,086</u>	<u>\$ 1,266,797</u>	<u>\$ 1,711,883</u>

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 ESSER -School Emergency Relief -CARES
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 11,857	\$ -	\$ -
5800 State Program Revenues	-	28,503	-	-
5900 Federal Program Revenues	151,550	585,760	21,036	-
5020 Total Revenues	151,550	626,120	21,036	-
EXPENDITURES:				
Current:				
0011 Instruction	151,550	-	21,036	-
0012 Instructional Resources and Media Services	-	-	-	-
0023 School Leadership	-	-	-	-
0035 Food Services	-	552,002	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
Debt Service:				
0071 Principal on Long-Term Liabilities	-	-	-	-
0072 Interest on Long-Term Liabilities	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	151,550	552,002	21,036	-
1200 Net Change in Fund Balance	-	74,118	-	-
0100 Fund Balance - July 1 (Beginning)	-	743	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ 74,861	\$ -	\$ -

282 ESSER III ARP Act	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 140,956	\$ 152,813	\$ 1,315,481	\$ 1,468,294
-	-	37,564	2,100	-	68,167	82,836	151,003
424,248	15,197	-	-	-	1,197,791	-	1,197,791
424,248	15,197	37,564	2,100	140,956	1,418,771	1,398,317	2,817,088
415,707	15,197	37,564	2,100	750	643,904	-	643,904
-	-	-	-	859	859	-	859
-	-	-	-	77,644	77,644	-	77,644
-	-	-	-	-	552,002	-	552,002
-	-	-	-	19,366	19,366	-	19,366
8,541	-	-	-	100	8,641	-	8,641
-	-	-	-	-	-	305,000	305,000
-	-	-	-	-	-	280,387	280,387
-	-	-	-	-	-	1,000	1,000
424,248	15,197	37,564	2,100	98,719	1,302,416	586,387	1,888,803
-	-	-	-	42,237	116,355	811,930	928,285
-	-	-	-	101,301	102,044	333,995	436,039
\$ -	\$ -	\$ -	\$ -	\$ 143,538	\$ 218,399	\$ 1,145,925	\$ 1,364,324

REQUIRED T.E.A SCHEDULES

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED JUNE 30, 2022

Last 10 Years		(1)	(2)	(3)
		Tax Rates		Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2013	and prior years	Various	Various	\$ 381,900,359
2014		1.040000	0.129500	198,589,743
2015		1.040000	0.129500	212,375,202
2016		1.040000	0.129500	211,233,887
2017		1.040000	0.129500	211,447,047
2018		1.040000	0.129500	215,143,138
2019		1.040000	0.129500	222,756,838
2020		0.970000	0.129500	250,052,729
2021		0.966400	0.129500	282,429,692
2022	(School year under audit)	0.872000	0.223000	443,156,804
1000	TOTALS			

(10) Beginning Balance 7/1/2021	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2022
\$ 117,682	\$ -	\$ 3,266	\$ 442	\$ (3,720)	\$ 110,254
14,062	-	19	2	(181)	13,860
21,069	-	934	115	(181)	19,839
26,772	-	2,352	291	(181)	23,948
27,076	-	2,132	264	(181)	24,499
28,325	-	3,229	399	(109)	24,588
75,106	-	60,830	7,518	21,061	27,819
75,473	-	66,211	9,029	76,903	77,136
122,216	-	79,623	10,858	68,762	100,497
-	4,852,567	3,433,998	1,266,889	20,180	171,860
<u>\$ 507,781</u>	<u>\$ 4,852,567</u>	<u>\$ 3,652,594</u>	<u>\$ 1,295,807</u>	<u>\$ 182,353</u>	<u>\$ 594,300</u>

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 19,000	\$ 19,000	\$ 11,857	\$ (7,143)
5800 State Program Revenues	2,200	29,624	28,503	(1,121)
5900 Federal Program Revenues	398,000	408,803	585,760	176,957
5020 Total Revenues	419,200	457,427	626,120	168,693
EXPENDITURES:				
Current:				
0035 Food Services	542,902	581,129	552,002	29,127
6030 Total Expenditures	542,902	581,129	552,002	29,127
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(123,702)	(123,702)	74,118	197,820
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	123,702	123,702	-	(123,702)
1200 Net Change in Fund Balances	-	-	74,118	74,118
0100 Fund Balance - July 1 (Beginning)	743	743	743	-
3000 Fund Balance - June 30 (Ending)	\$ 743	\$ 743	\$ 74,861	\$ 74,118

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes			Actual Amounts	Variance With	
	Budgeted Amounts		(GAAP BASIS)	Final Budget	
	Original	Final		Positive or (Negative)	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 652,189	\$ 1,346,309	\$ 1,315,481	\$ (30,828)
5800	State Program Revenues	3,151	3,151	82,836	79,685
5020	Total Revenues	655,340	1,349,460	1,398,317	48,857
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Liabilities	655,340	305,000	305,000	-
0072	Interest on Long-Term Liabilities	-	366,387	280,387	86,000
0073	Bond Issuance Cost and Fees	-	678,073	1,000	677,073
6030	Total Expenditures	655,340	1,349,460	586,387	763,073
1200	Net Change in Fund Balances	-	-	811,930	811,930
0100	Fund Balance - July 1 (Beginning)	333,995	333,995	333,995	-
3000	Fund Balance - June 30 (Ending)	\$ 333,995	\$ 333,995	\$ 1,145,925	\$ 811,930

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2022

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA 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.	\$822,847
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	\$628,801

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA 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 LEA's fiscal year.	\$18,813
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35)	\$13,261

**COMPLIANCE, INTERNAL CONTROL, AND
FEDERAL AWARDS SECTION**



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

Independent Auditor's Report

Board of Trustees
Prairiland Independent School District
466 FM 196 South
Pattonville, TX 75468

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prairiland Independent School District the (District), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively compromise the District's basic financial statements, and have issued our report thereon dated November 11, 2022.

Internal Control over Financial Reporting

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

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

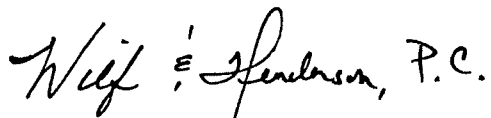
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Wilf & Henderson, P.C." in a cursive, flowing script.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 11, 2022



WILF & HENDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Member of American Institute of Certified Public Accountants
Member of Private Company Practice Section
Member of AICPA Governmental Audit Quality Center

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

Independent Auditor's Report

Board of Trustees
Prairiland Independent School District
466 FM 196 South
Pattonville, TX 75468

Members of the Board:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Prairiland 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, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Prairiland Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

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

This purpose of this report in 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.



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

November 11, 2022

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

I. Summary of Auditor's Results:

- a. The type of report issued on the financial statements of the Prairiland Independent School District was an unmodified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instance of noncompliance material to the financial statements of the Prairiland Independent School District was disclosed during the audit.
- d. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the report on internal control over compliance required by Uniform Guidance.
- e. The type of report the auditor issued on compliance for major programs was an unmodified opinion.
- f. No audit findings relative to the major federal awards programs were disclosed by the audit that were required to be reported under 2 CFR 200.516(a).
- g. The programs test as major programs was:

School Breakfast Program	CFDA# 10.553
National School Lunch Program- Cash Assistance	CFDA# 10.555
National School Lunch Program – Non-Cash Assistance	CFDA# 10.555
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000
- i. Prairiland Independent School District was determined not be a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

No findings were required to be reported.

III. Findings and Responses for Federal Awards Including Audit Findings as Described in I.f above.

No findings were required to be reported.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

There were no prior year audit findings or questioned costs.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2022**

There were no current year audit findings or questioned costs.

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	22- 610101139912	\$ 146,350
ESEA, Title I, Part A - Improving Basic Programs	84.010A	22 - 610101139912	<u>5,200</u>
Total Assistance Listing Number 84.010			<u>151,550</u>
ESEA, Title II, Part A, Teacher Principal Training	84.367A	22 - 694501139912	21,036
COVID-19 - ESSER III - ARP School Emergency Relief	84.425U	22 - 528001139912	424,248
Title IV, Part A, Subpart 1	84.424A	22 - 680101139912	<u>15,197</u>
Total Passed Through Texas Education Agency			<u>612,031</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>612,031</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the Texas Department of Agriculture</u>			
*School Breakfast Program	10.553	N/A	156,661
*National School Lunch Program - Cash Assistance	10.555	N/A	381,296
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	<u>47,803</u>
Total Assistance Listing Number 10.555			<u>429,099</u>
Total Child Nutrition Cluster			<u>585,760</u>
Total Passed Through the Texas Department of Agriculture			<u>585,760</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>585,760</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,197,791</u>
*Clustered Programs as required by Compliance Supplement 2022			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

- 1 For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted or committed to specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- 2 The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Uniform Guidance Supplement.
4. Nonmonetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expense are reported in the Food Service Special Revenue Fund.

SCHOOLS FIRST QUESTIONNAIRE

Prairiland Independent School District

Fiscal Year 2022

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

APPENDIX D
FORM OF BOND COUNSEL'S OPINION

LEON | ALCALA

ATTORNEYS AT LAW

August 29, 2023

Re: Prairiland Independent School District Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”)

Ladies and Gentlemen:

We have acted as Bond Counsel to the captioned issuer (the “District”) in connection with the issuance of the Bonds, which are being issued in the aggregate original principal amount of \$5,940,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District on August 9, 2023 (the “Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

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. We call attention to the fact that the rights and obligations under the Bonds and the Order 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

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non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

We express no opinion with respect to: (1) whether the interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, or (2) any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the District, and the Bonds have been authorized and delivered in accordance with law.
- (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.

Respectfully submitted,

Leon | Alcala, PLLC

APPENDIX E
FORM OF SPECIAL TAX COUNSEL'S OPINION

Prairiland Independent School District
Unlimited Tax School Building Bonds, Series 2023

Ladies and Gentlemen:

We have acted as special tax counsel to Prairiland Independent School District (the “District”) in connection with the issuance of \$_____ aggregate principal amount of obligations designated as “Unlimited Tax School Building Bonds, Series 2023” (the “Bonds”). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the “Board”) on August 9, 2023 (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 opinion set forth herein.

The Internal Revenue Code of 1986, as amended (the “Code”), includes requirements which the District must continue to meet after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal income tax purposes. The failure by the District to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to its date of issuance. The District has covenanted in the Tax Certificate to comply with the requirements of the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the original delivery of the Bonds on 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 original delivery of the Bonds on 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

Greenberg Traurig, LLP | Attorneys at Law

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Albany. Amsterdam. Atlanta. Austin. Berlin¹. Boston. Charlotte. Chicago. Dallas. Delaware. Denver. Fort Lauderdale. Houston. Las Vegas. London.² Long Island. Los Angeles. Mexico City³. Miami. Milan⁴. Minneapolis. New Jersey. New York. Northern Virginia. Orange County. Orlando. Philadelphia. Phoenix. Portland. Sacramento. Salt Lake City. San Diego. San Francisco. Seoul⁵. Shanghai. Silicon Valley. Tallahassee. Tampa. Tel Aviv⁶. Tokyo⁷. Warsaw⁸. Washington, D.C. West Palm Beach. Westchester County.

Operates as: ¹Greenberg Traurig Germany, LLP; ²A separate UK registered legal entity; ³Greenberg Traurig, S.C.; ⁴Greenberg Traurig Santa Maria; ⁵Greenberg Traurig LLP Foreign Legal Consultant Office; ⁶A branch of Greenberg Traurig, P.A., Florida, USA; ⁷GT Tokyo Horitsu Jimusho and Greenberg Traurig Gaikokuhojimubegoshi Jimusho; ⁸Greenberg Traurig Nowakowska-Zimoch Wysocki sp.k.

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 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 or having the effect of 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. We have reviewed and assumed the accuracy of the opinion of Leon Alcala, PLLC as bond counsel of even date herewith as to the validity and enforceability of the Bonds and the power of the Board to levy and pledge the annual ad valorem tax as set forth therein. Our services did not include financial or other non-legal advice.

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

1. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes; and, furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. 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.

Faithfully yours,

APPENDIX F

The following is incorporated into the offering document to which it is attached.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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, and other authorized changes are expected to be implemented in phases 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.

The regular session of the 88th Texas Legislature (the “Legislature”) is scheduled from January 10, 2023 to May 29, 2023. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, and Texas school finance generally. No representation is made regarding any actions the Legislature may

take, but the TEA, SBOE, and PSF Corporation intend to monitor proposed legislation for any developments applicable thereto.

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 in 1845 and received its first significant funding with a \$2,000,000 appropriation by 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 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 also 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, 2022, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the United States 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, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report 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, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2022 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 PSF Corporation’s Investment Policy Statement (the “IPS”), 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. 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 a discussion of the PSF Corporation audit. At its November 2022 quarterly board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the "Regulatory Recodification") was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

The following discussion describes some legal and management aspects of the structure of the Fund prior to full implementation of SB 1232. SB 1232 is being implemented in phases. See "Management Transition to the PSF Corporation" for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 as well as certain prior actions 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, but SB 1232 authorized the SBOE to delegate management of the Fund to the Corporation, which, as noted above, has been done. 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 through the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the "Prudent Person Standard").

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 IPS provides that the PSF shall be managed consistently with respect to the following: support for public free schools in Texas, real growth in Fund asset values, protection of Fund capital, and the provision of sustained income distributions to current 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 PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to 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. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

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 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.

Prior to the enactment of SB 1232, Texas law assigned to the SLB control of the Fund's land and mineral rights and authority to invest in certain real assets. Administrative duties related to these assets have in the past resided with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner").

In 2019, the Texas Legislature enacted legislation that created a "permanent school fund liquid account" (the "Liquid Account") in the PSF for the purpose of the SBOE receiving, administering, and investing funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter. On January 1, 2023, management of the Liquid Account transferred from the SBOE to the PSF Corporation. The bill grants the PSF Corporation authority and discretion to abolish the Liquid Account when its purpose has been resolved and transfer any remaining balance to the Fund.

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 noted above, on January 1, 2023 the investment management responsibilities for the Fund transferred to the PSF Corporation and the merger of Fund assets previously managed by the SLB with those previously managed by the SBOE.

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 governed by a nine-member board of directors (the “PSFC Board”), which consists 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 (one of which is currently vacant) with confirmation by the Senate.

At the inaugural meeting of the PSFC Board in January 2022, the PSFC Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation and in April 2022 the Executive Administrator of the Fund was confirmed as the chief executive officer of the PSF Corporation. In July 2023, the PSFC Board appointed an Acting chief executive officer to perform those duties while the PSFC Board conducts a search to hire a permanent replacement for the chief executive officer who retired at the end of March. The PSFC Board adopted bylaws governing how it will manage its affairs and conduct business. The chief executive officer reports to the PSFC Board. Any amendments to the PSF Corporation’s articles of formation and bylaws will be adopted by the PSFC Board but are subject to approval by the SBOE. At its March 2023 meeting, the PSFC Board approved its securities lending policy.

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 is no longer authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and individual 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.

Not less than once each year, the PSFC 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. The first audit of the PSF Corporation will be conducted following the close of the 2022-2023 fiscal year on August 31, 2023.

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.

With respect to the 2024-2025 State biennium, and for subsequent biennia, the PSF Corporation is required to submit a legislative appropriations request ("LAR") to the LBB and the Office of the Governor that details a request for appropriation of funds to enable the PSF Corporation to carry out its responsibilities for the investment management of the Fund. The requested funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2024 and 2025. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

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 PSF Corporation and TEA staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

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

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

fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
				\$1,05						
PSF(SBOE) Distribution	\$1,021	\$839	\$839	6	\$1,056	\$1,236	\$1,236	\$1,102	\$1,102	\$1,731
PSF(SLB) Distribution	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600	\$600 ²	\$415
Per Student Distribution	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341	\$432

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2022.

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 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$1.2 billion 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.

<u>State Fiscal Biennium</u>	<u>2008-09</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>
<u>SBOE Distribution Rate¹</u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32% ²

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. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

² The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid- to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

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 historically reviewed 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 June 2022. The IPS (effective January 1, 2023) provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income, and alternatives. The alternatives category includes absolute return, private equity, real estate, emerging manager program, real return, natural resources, and infrastructure components. Alternative asset classes diversify the managed assets of the PSF 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 traditional investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

Prior to the effective date of the IPS, the most recent asset allocation of the PSF(SBOE), was approved by the SBOE in June 2022, and is set forth below, along with the asset allocations of the PSF(SLB) and Liquid Account that were effective June 2022.

PSF 2022 Strategic Asset Allocations

	<u>PSF(SBOE)</u>	<u>PSF(SLB)</u>	<u>Liquid Account</u>
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap	14%	0%	38%
US Equity			
Small/Mid	6%	0%	10%
Cap US			
Equity			
International	14%	0%	29%
Equities			
Emerging	3%	0%	0%
Markets			
Equity			
Private Equity	18%	0%	0%

Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging Markets Debt	3%	0%	0%
Treasuries	3%	0%	0%
TIPS	0%	0%	5%
Short Duration	0%	0%	0%
Alternative Investments Total	22%	100%	0%
Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
Emerging Manager Program	1%	0%	0%
Cash	0%	0%	2%

PSF Corporation 2023 Strategic Asset Allocation

Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE, the SLB and the Liquid Account). The IPS provides that the Fund's investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;
- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations; and
- Maintain a AAA credit rating, as assigned by a nationally recognized securities rating organization.

The table below sets forth the asset allocation of the Fund beginning January 1, 2023.

Asset Class	Strategic Asset Allocation	Range
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Equities		
Large Cap US Equity	15%	+/- 3.0%
Small/Mid-Cap US Equity	6%	+/- 1.0%
Non-US Developed Equity	10%	+/- 3.0%
Emerging Market Equity	6%	+/- 1.0%
<i>Total Equity</i>	37%	
Fixed Income		
Core Bonds	11%	+/- 2.0%
Non-Core Bonds (High Yield & Bank Loans)	3%	+/- 3.0%
Emerging Market Debt (Local Currency)	2%	+/- 2.0%
U.S. Treasuries	2%	+/- 2.0%
<i>Total Fixed Income</i>	18%	
Cash Equivalents	0%	
Alternatives		
Absolute Return	6%	+/- 1.0%
Private Equity	15%	+/- 4.0%
Real Estate	12%	+/- 4.0%
Emerging Manager Program (Private Equity/Real Estate)	1%	+/- 1.0%
Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%
Private Real Assets – Natural Resources	3%	+/- 2.0%
Private Real Assets - Infrastructure	4%	+/- 2.0%
<i>Total Alternatives</i>	45%	

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, 2021 and 2022, as set forth in the PSF Annual Reports for those years. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined for investment management and accounting purposes.

Comparative Investment Schedule - PSF(SBOE)¹

Fair Value (in millions) August 31, 2022 and 2021				
<u>ASSET CLASS</u>	<u>August 31, 2022</u>	<u>August 31, 2021</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
EQUITY				
Domestic Small Cap	\$ 2,358.4	\$ 2,597.3	\$ (238.9)	-9.2%
Domestic Large Cap	<u>4,730.4</u>	<u>6,218.7</u>	<u>(1,488.3)</u>	<u>-23.9%</u>
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%

International Equity	<u>5,972.5</u>	<u>8,062.1</u>	<u>(2,089.6)</u>	<u>-25.9%</u>
TOTAL EQUITY	13,061.3	16,878.1	(3,816.8)	-22.6%
FIXED INCOME				
Domestic Fixed Income	4,563.3	4,853.1	(289.8)	-6.0%
U.S. Treasuries	1,140.2	1,243.3	(103.1)	-8.3%
High Yield Bonds	1,142.5	-	<u>1,142.5</u>	<u>N/A</u>
Emerging Market Debt	<u>1,142.5</u>	<u>2,683.7</u>	<u>(1,492.8)</u>	<u>-55.6%</u>
TOTAL FIXED INCOME	8,036.9	8,780.1	(743.2)	-8.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	2,932.3	3,546.0	(613.7)	-17.3%
Real Estate	4,365.7	3,706.0	659.7	17.8%
Private Equity	7,933.1	7,724.6	208.5	2.7%
Emerging Manager Program	29.9	-	29.9	N/A
Real Return	<u>1,412.0</u>	<u>1,675.5</u>	<u>(263.5)</u>	<u>-15.7%</u>
TOT ALT INVESTMENTS	16,673.0	16,652.1	20.9	0.1%
UNALLOCATED CASH	<u>196.5</u>	<u>262.9</u>	<u>(66.4)</u>	<u>-25.3%</u>
TOTAL PSF(SBOE) INVESTMENTS	\$ 37,967.7	\$ 42,573.2	\$ (4,605.5)	-10.8%

Source: PSF Annual Report for year ended August 31, 2022.

¹ The investments shown in the table above at August 31, 2022 do not fully reflect the changes made to the PSF Strategic Asset Allocation in June 2022, as those changes were still being phased in at the end of the fiscal year.

The table below sets forth the investments of the Liquid Account for the year ended August 31, 2022.

Liquid Account Fair Value at August 31, 2022¹

Fair Value (in millions) August 31, 2022 and 2021

<u>ASSET CLASS</u>	<u>August 31, 2022</u>	<u>August 31, 2021</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Equity				
Domestic Small/Mid Cap	\$ 500.0	\$228.3	\$271.7	119.0%
Domestic Large Cap	<u>1,671.7</u>	<u>578.6</u>	<u>1,093.1</u>	188.9%
Total Domestic Equity	2,171.7	806.9	1,364.8	169.1%
International Equity	<u>1,225.5</u>	<u>392.6</u>	<u>832.9</u>	212.1%
TOTAL EQUITY	3,397.2	1,199.5	2,197.7	183.2%
Fixed Income				
Short-Term Fixed Income	797.4	1,074.8	(277.4)	-25.8%
Core Bonds	506.8	413.1	93.7	22.7%
TIPS	<u>208.2</u>	<u>213.9</u>	<u>(5.7)</u>	<u>-2.7%</u>
TOTAL FIXED INCOME	1,512.4	1,701.8	(189.4)	-11.1%
Unallocated Cash	<u>35.2</u>	<u>1,420.5</u>	<u>(1,385.3)</u>	<u>-97.5%</u>
Total Liquid Account Investments	\$4,944.8	\$4,321.8	\$623.0	14.4%

¹ In millions of dollars.

Source: PSF Annual Report for year ended August 31, 2022.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2022 and 2021.

Comparative Investment Schedule - PSF(SLB)

Fair Value (in millions) August 31, 2022 and 2021

Asset Class	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$2,718.6	\$1,707.5	\$1,011.1	59.2%
Infrastructure	1,622.7	1,652.3	(29.6)	-1.8%
Real Estate	<u>1,921.2</u>	<u>1,276.8</u>	<u>644.4</u>	50.5%
Internally Managed Direct				
Real Estate Investments	271.5	223.9	47.6	21.3%
Total Discretionary				
Real Assets Investments	6,534.0	4,860.5	1,673.5	34.4%
Dom. Equity Rec'd as In-Kind Distribution	-	1.7	(1.7)	-100.0%
Sovereign and Other Lands	428.3	405.4	22.9	5.6%
Mineral Interests	5,622.2	2,720.4	2,901.8	106.7%
Cash at State Treasury ²	<u>1,257.5</u>	<u>699.2</u>	<u>558.3</u>	79.8%
Total PSF(SLB)				
Investments	\$13,842.0	\$8,687.2	\$5,154.8	59.3%

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 PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation 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; 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. 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. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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”). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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 July 2023 (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 7.36%. At July 31, 2023, there were 184 active open-enrollment charter schools in the State and there were 1,103 charter school campuses authorized under such charters, though as of such date, 208 of such campuses are not currently serving students for various reasons; therefore, there are 895 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant 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.

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and 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. 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 lesser of that imposed by State law (the “State Capacity Limit”) and that imposed by regulations and a notice issued by the IRS (the “IRS Limit”, with the limit in effect at any given time being the “Capacity Limit”). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 after the IRS updated regulations relating to the PSF and similar funds.

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 will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

<u>Changes in SBOE-determined multiplier for State Capacity Limit</u>	
<u>Date</u>	<u>Multiplier</u>

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

Since December 16, 2009, the IRS Limit was a static limit set at 500% of the total cost value of the assets held by the PSF as of December 16, 2009; however, on May 10, 2023, the IRS released Notice 2023-39 (the “IRS Notice”), stating that the IRS would issue regulations amending the existing regulations to amend the calculation of the IRS limit to 500% of the total cost value of assets held by the PSF as of the date of sale of new bonds. 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 May 10, 2023, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

The IRS Notice changes the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of June 30, 2023 the cost value of the Guarantee Program was \$43,704,948,910 (unaudited), thereby producing an IRS Limit of \$218,344,585,245 in principal amount of guaranteed bonds outstanding.

As of June 30, 2023, the estimated State Capacity Limit is \$152,967,321,185, which is lower than the IRS Limit, making the State Capacity Limit 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 March 1, 2023, the Act, as amended through the Regulatory Recodification, provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the “Capacity Reserve”). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The 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.

With the change in the Capacity Reserve from 5% to 0.25%, effective March 1, 2023, as discussed above, and the change in the IRS Limit making the State Capacity Limit the current Capacity Limit, the net Guarantee Program capacity as of June 30, 2023 is \$152,556,827,260. No representation is made as to how the capacity will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

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.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.36% in March 2023. 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 also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

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 June 30, 2023, the Charter District Reserve Fund contained \$90,293,027, which represented approximately 2.23% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring

charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Infectious Disease Outbreak

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

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

<https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of February 2023, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See the applicable rating section within the Official Statement to which this is attached for information regarding a district's underlying rating and the enhanced rating applied to a given series of bonds.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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	38,699,895,545	55,582,252,097
2022 ⁽²⁾	42,511,350,050	56,754,515,757

⁽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 current, unaudited values for PSF investment portfolios and cash held by the SLB are used. 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 Corporation by the SLB. The SLB reports that information to the PSF Corporation 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, 2022, mineral assets, sovereign and other lands and discretionary internal investments, investments with external managers, and cash managed by the SLB had book values of approximately \$13.4 million, \$180.6 million, \$5,433.0 million, and \$1,257.5 million, respectively, and market values of approximately \$5,622.2 million, \$699.8 million, \$6,262.5 million, and \$1,257.52 million, respectively.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2018	\$79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929 ⁽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, 2022 (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 \$156,825,227,335, of which \$53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were \$103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$152,556,827,260 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of June 30, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2023, the amount of outstanding bond guarantees represented 70.06% of the Capacity

Limit (which is currently the State Capacity Limit). June 30, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended <u>8/31</u>	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>
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	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022 ⁽²⁾	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929

⁽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 June 30, 2023 (based on unaudited data, which is subject to adjustment), there were \$107,163,538,633 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,424 school district issues, aggregating \$103,112,917,633 in principal amount and 107 charter district issues, aggregating \$4,050,621,000 in principal amount. At June 30, 2023 the projected guarantee capacity available was \$30,224,526,888 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2022

The following discussion is derived from the Annual Report for the year ended August 31, 2022, 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, 2022, 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 2022, the Fund balance was \$56.8 billion, an increase of \$1.2 billion from the prior year. This increase is primarily due to overall net increases in value of the various 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, 2022, net of fees, were -6.80%, 6.54% and 7.33%, respectively, and the Liquid(SBOE) annual rate of return for the one-year and three-year periods ending August 31, 2022, net of fees, was -10.24% and -1.23% (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 32.29%, 8.42%, and 7.40%, respectively.

The Fund is invested in global markets and experiences volatility commensurate with the related indices. The Fund is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted and implemented to make the cost structure more effective and efficient. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2022.

As of August 31, 2022, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$7.3 billion and capital commitments to private equity limited partnerships for a total of \$10.1 billion. Unfunded commitments at August 31, 2022, totaled \$2.4 billion in real estate investments and \$2.9 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2022¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(SBOE) Portfolio	(6.80)%	(6.37)%
Domestic Large Cap Equities(SBOE)	(11.08)	(11.23)
Domestic Small/Mid Cap Equities(SBOE)	(10.96)	(10.90)
International Equities(SBOE)	(19.72)	(19.52)
Emerging Market Equity(SBOE)	(22.85)	(21.80)
Fixed Income(SBOE)	(12.16)	(11.52)
Treasuries	(22.82)	(22.64)
Absolute Return(SBOE)	(0.55)	(5.66)
Real Estate(SBOE)	23.31	20.56
Private Equity(SBOE)	3.17	8.43
Real Return(SBOE)	2.98	3.09
Emerging Market Debt(SBOE)	(17.95)	(19.43)
Liquid Large Cap Equity(SBOE)	(10.39)	(11.23)
Liquid Small Cap Equity(SBOE)	(10.63)	(10.90)
Liquid International Equity(SBOE)	(19.34)	(19.52)
Liquid Short-Term Fixed Income(SBOE)	(4.27)	(4.01)
Liquid Core Bonds(SBOE)	(11.30)	(11.52)
Liquid TIPS(SBOE)	(5.78)	(5.98)
Liquid Transition Cash Reserves(SBOE)	1.65	0.38
Liquid Combined(SBOE)	(10.24)	(10.88)
PSF(SLB)	(32.29)	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, 2022.

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2022.

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, 2022, the remaining commitments totaled approximately \$1.94 billion.

For fiscal year 2022, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.5 billion, a decrease of \$7.3 billion from fiscal year 2021 earnings of \$10.8 billion. The total change in the fair value of the Fund investments is consistent with the change in value of the markets in which those investments were made. In fiscal year 2022, revenues earned by the Fund included gains realized on the sale of land and real estate owned by the Fund; 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 externally managed real assets investment funds; 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 3.0% for the fiscal year ending August 31, 2022. 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, as well as increases in operational costs.

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 2021 and 2022, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.7 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2021 and 2022 totaled \$600 and \$415 million, respectively.

At the end of the 2022 fiscal year, PSF assets guaranteed \$103.2 billion in bonds issued by 898 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 8,554 school district and charter district bond issues totaling \$239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$7.98 billion or 8.4%. The State Capacity Limit increased by \$13.3 billion, or 9.8%, during fiscal year 2022 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 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the

PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. As part of the Regulatory Recodification, the PSF Corporation developed its own ethics policy as required by SB 1232, which provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

As of August 31, 2022, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The Regulatory Recodification included the codification of the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program. As of March 1, 2023, the TEA Undertaking is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [available at https://tea.texas.gov/sites/default/files/ch033a.pdf](https://tea.texas.gov/sites/default/files/ch033a.pdf).

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA 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 Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking 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 Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

Except as stated below, 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. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

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.

