

PRELIMINARY OFFICIAL STATEMENT
Dated August 18, 2022

NEW ISSUE – BOOK ENTRY ONLY

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

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

In the opinion of Special Tax Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Bond Order (defined below) and subject to the matters set forth under “TAX MATTERS” herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. See “TAX MATTERS” herein.

The District will designate the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions

\$9,705,000*

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 2022

Dated Date: September 15, 2022

Due: As shown on page ii

Interest to Accrue from Date of Delivery

AUTHORITY FOR ISSUANCE AND SECURITY ... The Prairiland Independent School District Unlimited Tax School Building Bonds, Series 2022 (the “Bonds”) are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the “Financing Act”), an election held in the Prairiland Independent School District (the “District”) on May 7, 2022 (the “Election”), and a bond order (the “Bond Order”) to be adopted by the Board of Trustees of the District on August 23, 2022. The Bonds are direct and voted obligations of the District, payable from a continuing direct 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”). The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from the Delivery Date (defined below) and will be payable on February 15 and August 15 of each year, commencing February 15, 2023, 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 “Securities Depository”) 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, N.A., 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 (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, any necessary or related removal of existing school facilities, and the purchase of any necessary sites for school facilities; (ii) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational facilities and extracurricular facilities; and (iii) for 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 (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Leon Alcala PLLC, Austin, Texas, Co-Bond Counsel and Norton Rose Fulbright US LLP, Houston, Texas, Co-Bond Counsel and Special Tax Counsel (see “APPENDIX D – FORMS OF CO-BOND COUNSEL AND 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 the services of DTC on or about September 22, 2022 (the “Delivery Date”).*

STEPHENS INC.

* Preliminary, subject to change.

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

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

\$9,705,000*

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in located in Lamar and Red River Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

CUSIP No. Prefix 739720 ⁽¹⁾

Maturity Date (2/15)	Principal* (\$)	Interest Rate (%)	Initial Yield ⁽²⁾ (%)	CUSIP No. Suffix ⁽¹⁾
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				

\$_____ Term Bonds

\$_____ % Term Bonds due February 15, 20___, Priced to Yield _____%, CUSIP No. Suffix ⁽¹⁾ _____

\$_____ % Term Bonds due February 15, 20___, Priced to Yield _____%, CUSIP No. Suffix ⁽¹⁾ _____

(Interest to accrue from the Date of Delivery)

The District reserves the option to redeem the Bonds maturing on and after February 15, 20___* 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, 20___*, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If two or more Bonds of consecutive maturity are combined into one or more "term" bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order. See "THE BONDS – Redemption Provisions of the Bonds."

* Preliminary, subject to change.

⁽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. None of the Purchaser, the District, or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ 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.

**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>
Michael Sessums	President	May 2023	Rancher
Jerrold Bankhead	Vice President	May 2024	Rancher
David Basinger	Secretary	May 2023	Farmer
John Dunagan	Member	May 2023	Production Assistant
Dustin Nation	Member	May 2025	Telephone Co
Ronnie Joe Bridges	Member	May 2025	Lineman
Ryan Gordon	Member	May 2024	Construction

ADMINISTRATION – FINANCE CONNECTED

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

CONSULTANTS AND ADVISORS

Co-Bond Counsel	Leon Alcala PLLC, Austin, Texas
Co-Bond Counsel and Special Tax Counsel	Norton Rose Fulbright US LLP, Houston, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas
Auditors	Wilf & Henderson, P.C., Texarkana, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" 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 and the Underwriter have provided the following sentence for inclusion in this Official Statement. The Municipal Advisor and the Underwriter 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, 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 ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", as such information has been provided by DTC and TEA, respectively.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement, nor any other statement made in connection with the offer or sale of the Bonds, is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, 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. 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 5,582.
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the District on May 7, 2022, and an order to be adopted by the Board on August 23, 2022 authorizing the issuance of the bonds (the "Bond Order").
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "PLAN OF FINANCING – Description of the Bonds").
DATED DATE	September 15, 2022.
PAYMENT OF INTEREST ...	Interest on the Bonds will accrue from the Delivery Date and will be payable until stated maturity or prior to redemption on February 15 and August 15 of each year, commencing February 15, 2023 (see "THE BONDS – Description of the Bonds").
REDEMPTION	The District reserves the right to redeem the bonds maturing on and after February 15, 20__*, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 20__* or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds"), such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order. 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". Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas.
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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
TAX MATTERS	In the opinion of Special Tax Counsel, under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes. See "TAX MATTERS" and "APPENDIX D – FORMS OF CO-BOND COUNSEL AND SPECIAL TAX COUNSEL'S OPINION".
QUALIFIED TAX-EXEMPT OBLIGATIONS	The District will designate 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, N.A., 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, any necessary or related removal of existing school facilities, and the purchase of any necessary sites for school facilities; (ii) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational facilities and extracurricular facilities; and (iii) for 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 September 22, 2022*.
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 Co-Bond Counsel (see "APPENDIX D – FORMS OF CO-BOND COUNSEL AND SPECIAL TAX COUNSEL'S OPINION" herein).

* Preliminary, subject to change

PRELIMINARY OFFICIAL STATEMENT

Relating to

\$9,705,000*

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 2022

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, and C hereto, provides certain information regarding the issuance of the \$9,705,000* Prairiland Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2022 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State" or "Texas"), particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the District on May 7, 2022 (the "Election"), and that certain bond order (the "Bond Order") to be adopted by the District's Board of Trustees on August 23, 2022. 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. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein. 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.

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and reopening of the State. Under executive orders in effect as of the date of this Preliminary Official Statement, there are no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on

* Preliminary, subject to change

activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

For the 2020-2021 school year, the TEA advised districts that district funding was to return to being based on ADA calculations requiring attendance to be taken. However, the TEA crafted an approach for determining ADA that provided districts with several options for determining daily attendance. These included remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts that met certain criteria established by the TEA were provided with various hold harmless protections throughout the 2020-2021 school year that applied if a district's ADA was less than certain ADA projections made by the TEA. The TEA provided the highest level of funding that resulted from either the hold harmless attendance counts (as a group, inclusive of all settings) or the district's actual attendance counts (as a group, inclusive of all settings) for the entire 2020-2021 school year, encompassing all portions of the school year for which a district would have been eligible for a hold harmless adjustment.

During the 87th legislative session, the Texas Legislature failed to pass legislation that would include virtual learning in ADA calculations. As a result, the 2021-2022 school year began with funding based on in-person attendance. During the second called special session, the Texas Legislature adopted Senate Bill 15, which allows virtual instruction attendance to be used for ADA funding purposes under certain circumstances. The District does not currently expect that all virtual instruction attendance will qualify for ADA funding. A return to funding based on actual attendance during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if the District does not qualify for additional hold harmless periods, if any, or if students do not take part in the instruction options made available by the District.

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

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

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

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, any necessary or related removal of existing school facilities, and the purchase of any necessary sites for school facilities; (ii) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping recreational facilities and extracurricular facilities; and (iii) for 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:

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$
[Net] Reoffering Premium on the Bonds	
TOTAL SOURCES	\$
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$
Underwriter's Discount	
Costs of Issuance and Contingency	
TOTAL USES	\$

THE BONDS

Description of the Bonds

The Bonds will be dated September 15, 2022 (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 initial delivery (the "Delivery Date"), will be payable on February 15, 2023, and each August 15 and February 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 (defined below) and such interest shall be paid by the Paying Agent/Registrar (a) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (b) 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 Beneficial Owners (defined above) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Financing Act, 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. Additionally, the District has received conditional approval from the Texas Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM") (see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICT IN TEXAS") (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

Permanent School Fund Guarantee

The District has received 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 "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.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "THE BONDS—Default and Remedies" herein.

Redemption Provisions of the Bonds

The District reserves the right to redeem the bonds maturing on and after February 15, 20__*, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 20__* 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. Additionally, if two or more serial bonds of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds"), such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order. The final Official Statement will include all material information related to any Term Bonds.

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. The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial

* Preliminary, subject to change

owners, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Bond Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS - Book-Entry-Only System").

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

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 purposes of applying any debt limitation on indebtedness or for purposes of taxation. 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.

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 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 "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.) The opinion of Co-Bond 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 Co-Bond Counsel and Special Tax Counsel.

Delivery

When issued; anticipated to occur on or about September 22, 2022*.

* Preliminary, subject to change.

Future Issues

At the Election, the District's voters authorized the District to issue \$16,000,000 in unlimited ad valorem tax bonds, proceeds from which will be utilized to undertake the projects described under "PLAN OF FINANCING – Purpose". The Bonds will be the first installment of this authorization and in the amount of \$9,780,000 and leaving \$6,220,000 authorization from the Election for future bond issues. See "TABLE 8 – Authorized But Unissued Bonds" in APPENDIX A hereto.

The District may enter into other financial obligations, 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, N.A., 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.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be 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; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

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.

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 should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

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.

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.

Successor Paying Agent/Registrar

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

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 maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

The information below concerning the Texas Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Municipal Advisor or the Underwriter.

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

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

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

History and Purpose

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

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

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

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

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

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

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

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

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office.

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

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

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

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

The SBOE/PSF investment staff and the SBOE's investment consultant for the Fund are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other financial statements of the State.

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

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

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

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

Management Transition to the PSF Corporation

In accordance with SB 1232, at its November 2021 board meeting, the SBOE approved the articles of formation of the PSF Corporation. The articles were filed on December 1, 2021, thus effecting the creation of the PSF Corporation. SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. The bill also provides that the PSF Corporation, the SBOE and TEA must coordinate to determine the PSF Corporation's role in the operation and management of the Guarantee Program to ensure the proper and efficient operation of the program.

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally occurring in calendar year 2023. As a result, the full implementation of SB 1232 will necessarily evolve over time with the timing of certain aspects of its implementation yet to be determined.

As allowed by SB 1232, the PSF Corporation has been created as a special-purpose governmental corporation and instrumentality of the State which is entitled to sovereign immunity. The PSF Corporation is to be governed by nine-member board of directors (the "Board"), consisting of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management; with one of the appointees being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

The November 8, 2011 referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the

SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2012</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>
PSF(SBOE) Distribution	\$1,021	\$1,021	\$839	\$839	\$1,056	\$1,056	\$1,236	\$1,236	\$1,102	\$1,102
PSF(SLB) Distribution	\$0	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600	\$600 ²
Per Student Distribution	\$221	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341

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

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

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

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

<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>SBOE Distribution Rate¹</u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

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

See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that may impact distributions to the ASF.

Asset Allocation of Fund Portfolios

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in July 2022. The Fund's Investment Policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The most recent asset allocation of the PSF(SBOE), approved by the SBOE in June 2022, is set forth below, along with the current asset allocations of the PSF(SLB) and the asset allocation of the Liquid Account (the Liquid Account asset allocation was most recently revised in June 2022). The next scheduled review of the PSF(SBOE) asset allocation is June 2024. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could affect the responsibility for review of the asset allocation and the timing of asset allocation review, as well as elimination of the Liquid Account.

PSF Strategic Asset Allocations

	<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 US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
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%

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.

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

Comparative Investment Schedule - PSF(SBOE)¹

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

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

¹ The investments shown in the table above at August 31, 2021 do not fully reflect the changes made to the PSF Strategic Asset Allocation in 2020, as those changes were still being phased in at the end of the fiscal year.

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously included in the PSF valuation but was held and invested by the State Comptroller. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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The table below sets forth the investments of the Liquid Account for the year ended August 31, 2021.

Liquid Account Fair Value at August 31, 2021¹

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

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

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

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

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

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65 and are available at <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"). The CDBGP Rules are codified at 19 TAC section 33.67 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 March 2022 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.98%. At August 2, 2022, there were 192 active open-enrollment charter schools in the State and there were 910 charter school campuses active under such charters (though as of such date, 28 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Education Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee

Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating

the capacity of the Charter District Bond Guarantee Program (the “CDBGP Capacity”), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” and “2017 Legislative Changes to the Charter District Bond Guarantee Program.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

<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

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

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the “Final IRS Regulations”). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the

Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009, multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The State Capacity Limit increased from \$128,247,002,583 on August 31, 2020 to \$135,449,634,408 on August 31, 2021 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At June 30, 2022, the Charter District Reserve Fund contained \$80,001,668, which represented approximately 2.13% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Infectious Disease Outbreak

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

Results of the PSF operations through the fiscal year ended August 31, 2021 and at other periodic points in time are set forth herein or incorporated herein by reference. Fund management is of the view that since the onset of the pandemic the Fund has performed generally in accordance with its portfolio benchmarks and with returns generally seen in the national and international investment markets in which the Fund is invested (see “Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2021”).

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 December 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2017	\$31,870,581,428	\$41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020	36,642,000,738	46,764,059,745
2021 ⁽²⁾	38,699,045,012	55,581,401,632

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

⁽²⁾ At August 31, 2021, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$183.7 million, \$4,655.9 million, \$4.7 million, and \$699.2 million, respectively, and market values of approximately \$2,720.4 million, \$629.3 million, \$4,636.6 million, \$1.8 million, and \$699.2 million, respectively. At June 30, 2022, the PSF had a book value of \$42,172,303,083 and a market value of \$52,315,129,702. June 30, 2022 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2017	\$74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922 ⁽²⁾

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

⁽²⁾ At August 31, 2021 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$144,196,223,433, of which \$48,937,061,511 represents interest to be paid. As shown in the table above, at August 31, 2021, there were \$95,259,161,922 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of June 30, 2022, 6.98% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2022, the amount of outstanding bond guarantees represented 85.37% of the Capacity Limit (which is currently the IRS Limit). June 30, 2022 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
2017	3,253	\$72,884,480,023	40	\$1,381,610,000	3,293	\$74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021 ⁽²⁾	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922

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

⁽²⁾ At June 30, 2022 (based on unaudited data, which is subject to adjustment), there were \$100,155,117,640 of bonds guaranteed under the Guarantee Program, representing 3,366 school district issues, aggregating \$96,400,426,640 in principal amount and 96 charter district issues, aggregating \$3,754,691,000 in principal amount. At June 30, 2022, the CDBG Capacity was \$7,779,399,883 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2021

The following discussion is derived from the Annual Report for the year ended August 31, 2021, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2021, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2021, the Fund balance was \$55.6 billion, an increase of \$8.9 billion from the prior year. This increase is primarily due to overall net increases in value of the asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2021, net of fees, were 22.97%, 10.49% and 9.05%, respectively, and the Liquid(SBOE) annual rate of return for the one-year period ending August 31, 2021, net of fees, was 4.90% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 12.81%, 1.56%, and 4.18%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2021.

As of August 31, 2021, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2021, totaled \$2.0 billion in real estate investments and \$2.4 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2021¹

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

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2021.

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2021, the remaining commitments totaled approximately \$2.24 billion.

For fiscal year 2021, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$10.8 billion, an increase of \$8.8 billion from fiscal year 2020 earnings of \$2.0 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2021. In fiscal year 2021, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 42.5% for the fiscal year ending August 31, 2021. This increase is primarily attributable to an increase in PSF(SLB)

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

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2020 and 2021, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2020 and 2021 totaled \$600 and \$600 million, respectively.

At the end of the 2021 fiscal year, PSF assets guaranteed \$95.3 billion in bonds issued by 880 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,203 school district and charter district bond issues totaling \$220.2 billion in principal amount. During the 2021 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,429. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.9 billion or 5.4%. The State Capacity Limit increased by \$7.2 billion, or 5.6%, during fiscal year 2021 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2021 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Guarantee Program.

Other Events and Disclosures

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

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

The TEA received an appropriation of \$30.4 million for each of the fiscal years 2020, and 2021.

As of August 31, 2021, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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.

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 appraisers 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.

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 (effective for the 2022 tax year), (2) a \$10,000 exemption of the appraised value of the homesteads of person sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

On May 7, 2022, a constitutional referendum was presented to the voters of the State, to increase the exemption of the appraised value of all homestead from \$25,000 to \$40,000. This constitutional amendment was approved by the voters at an election held on May 7, 2022, and the increased exemption amount will be effective for the tax year beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature makes provisions based on the outcome of the constitutional amendment election for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

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

Freeport 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.

Tax Increment Reinvestment Zones

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

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

considered in calculating any school district's Tier Two entitlement (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts").

Tax Limitation Agreements

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

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 was set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate. The State Comptroller has determined the minimum eligibility amount to be \$50,600,000 and \$52,978,000 for the 2021-2022 tax years, respectively.

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors

and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

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:

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
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 grants a State mandated \$25,000 general residence homestead exemption, which amount will increase to \$40,000 effective for tax year 2022.

The District has entered into an Economic Development Agreement authorized under Chapter 313, Texas Tax Code, as amended (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 to \$20,000,000, beginning tax year 2022 and extending through tax year 2031 with Samson Solar Energy I, LLC. The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation to \$20,000,000, beginning tax year 2022 and extending through tax year 2031 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 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 to \$20,000,000, beginning tax year 2022 and extending through tax year 2031 with Delilah Solar Energy, LLC. The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation to \$20,000,000, beginning tax year 2023 and extending through tax year 2032 with Paris Farm Solar, LLC.

The District has approved an application for an Economic Development Agreement authorized under Chapter 313, Texas Tax Code, as amended (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.

Local Funding for School Districts

A school district's M&O tax rate is composed of 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) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

State Compression Percentage. The State Compression Percentage is 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 State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2022, the State Compression Percentage is set at 91.34%.

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 2021-2022 school year. It established \$0.9134 as the maximum rate and \$0.8220 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 the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

State Funding for School Districts

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as 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 2021-2022 school year, the fast growth allotment weight is 0.45 for districts in the top 40% of school districts for growth, 0.30 for districts in the middle 30% of school districts for growth and 0.15 for districts in the bottom 30% of school districts for growth. After the 2021-2022 school year, the fast growth allotment weights change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$270 million for the 2021-2022 school year, \$310 million for the 2022-2023 school year and \$315 million for the 2023-2024 school year.

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

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

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

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

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.001 through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth to generate local revenues in excess of the school district's Tier One 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.

Recapture is measured by the "local revenue level" (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement.

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.

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For the 2021-2022 school year, the District was not designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has not entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2021-22 school year, for the purpose of implementing permitted wealth equalization options. A district's "excess local revenues" must be tested for each future school year and, if it exceeds the equalized wealth value, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's 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.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

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

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

I&S Tax Rate Limitations

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see "THE BONDS – Security 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 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, 2021 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, 2021 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 2020-21 fiscal year, the District had a net pension liability of \$1,867,974.

See primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See the audited financial statements of the District for the year ended June 30, 2021 as set forth in APPENDIX C hereto for information related

to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

INVESTMENT POLICIES

The District invests its 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 PFI Act. 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 Co-Bond Counsel and Special Tax Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The forms of Co-Bond Counsel and Special Tax Counsel's opinion are attached hereto as APPENDIX D. The legal fee to be paid to Co-Bond Counsel is contingent upon the sale and delivery of the Bonds.

Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Co-Bond Counsel, such firms have reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "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" (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. The legal fees to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

The legal opinions of Co-Bond Counsel will accompany the applicable series of Bonds deposited with DTC or will be printed on the definitive Bonds of such series in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Winstead PC, San Antonio, Texas, whose legal fees of such firms are contingent upon the sale and delivery of the Bonds.

Co-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 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

Tax Exemption

The delivery of the Bonds is subject to the opinion of Special Tax Counsel who will deliver an opinion to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Special Tax Counsel's legal opinion appears in APPENDIX D hereto.

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

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

Tax Changes

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

Ancillary Tax Consequences

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

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Bonds. Prospective purchasers that

could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Bonds.

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

Qualified Tax-Exempt Obligations

Qualified Tax-Exempt Obligations Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest 24 on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity Certificates that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity

bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000. The District will designate the Bonds as “qualified tax-exempt obligations” and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Certificates will be reduced by 20% pursuant to section 291 of the Code.

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 RISK

The District’s operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the District continually assesses and monitors its cybersecurity risks, the District has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the District takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the District has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the District will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the District’s control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the District’s operations and/or financial condition.

CONTINUING DISCLOSURE

In the Bond Order, the District has made the following agreement for the benefit of the owners of the Bonds. The District is required to observe the agreement while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified events to the MSRB via EMMA through an internet website accessible at www.emma.msrb.org. For a description of the continuing disclosure obligations for the TEA, see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX A attached hereto, exclusive of the table reflecting “Estimated Overlapping Debt”, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to the “Authorized but Unissued Bonds”, have not been and will not be included in the District’s annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2022.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the “SEC”) Rule 15c2-12 (the “Rule”). The

updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available within twelve (12) months after any such fiscal year end, the District will provide to the MSRB unaudited financial statements within such twelve (12) month period and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

The District will 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) 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 Global Ratings ("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 Co-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.

Sale of the Bonds

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 \$_____. 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 have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriter do 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. Certain of 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 may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

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

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.

The Bond Order will approve the form and content of this Official Statement and any addenda, supplement, or amendment thereto and will authorize its further use in the reoffering of the Bonds by the Underwriter.

PRAIRILAND INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
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⁾	
2022 Tax Year Total Valuation	\$1,348,513,573
Less: Exemptions and Deductions	<u>(463,014,702)</u>
2022 Tax Year Net Taxable Valuation	<u>\$885,498,871</u>
 <u>Tax Supported Debt</u>	
Unlimited Tax Bonds Outstanding (as of June 30, 2022)	\$13,420,000
The Bonds ⁽²⁾	<u>9,705,000</u>
Total Unlimited Tax Bonds ⁽²⁾	<u>\$23,125,000</u>
 Less: Interest & Sinking Fund Balance ⁽³⁾	 <u>1,193,522</u>
Net General Obligation Debt ⁽⁴⁾	<u>\$21,931,478</u>
 Ratio of Net G.O. Debt to Net Taxable Valuation	 2.48%
 Estimated District Population ⁽⁵⁾	 5,582
Per Capita Net Taxable Valuation	\$158,635
Per Capita Net G.O. Debt	\$3,929

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts Certified Values. 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 2022 Tax Year is approximately \$469,747,297.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ Source: The District's records. Unaudited as of June 30, 2022.

⁽⁴⁾ Includes the Bonds. Preliminary, subject to change.

⁽⁵⁾ Source: The Municipal Advisory Council of Texas

TABLE 2 - Historical Net Taxable Assessed Valuation ⁽¹⁾

	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year 2019	Tax Year 2018
Gross Value	\$1,348,513,573	\$1,007,739,114	\$650,788,406	\$583,337,177	\$532,371,146
Less: Exemptions	<u>(463,014,702)</u>	<u>(405,672,152)</u>	<u>(372,313,098)</u>	<u>(324,237,938)</u>	<u>(299,642,556)</u>
Net Taxable Value	\$885,498,871	\$602,066,962	\$278,475,308	\$259,099,239	\$232,728,590

⁽¹⁾ Source: Lamar County and Red River County Appraisal Districts Certified Values. 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 2022 Tax Year is approximately \$469,747,297.

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	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2019	5,944	\$232,728,590	\$39,154	\$7,160,000	3.08%	\$1,205
2020	5,934	259,099,239	43,664	6,895,000	2.66%	1,162
2021	5,692	278,475,308	48,924	6,625,000	2.38%	1,164
2022	5,292	602,066,992	113,769	13,420,000	2.23%	2,536
2023	5,582	885,498,871	158,635	22,665,000 ⁽³⁾	2.56% ⁽³⁾	4,060 ⁽³⁾

⁽¹⁾ Source: The Municipal Advisory Council of Texas

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

⁽³⁾ Includes the Bonds. Preliminary, subject to change.

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⁾
2017	\$1.1695	\$1.0400	\$0.1295	\$2,472,873	95.95%	99.56%
2018	1.1695	1.0400	0.1295	2,516,099	96.57%	99.55%
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 ⁽³⁾	0.1295	3,095,147	96.07%	97.93%
2022	1.0950	0.8720 ⁽³⁾	0.2230	4,872,746	96.47% ⁽⁴⁾	96.47% ⁽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 30, 2022.

TABLE 5 - Largest Taxpayers, 2021 ⁽¹⁾⁽²⁾

Taxpayer Name	Property Type	AV	% of Total
Samson Solar Energy	Electric Utility/Power Plant	\$26,865,000	4.46%
TIC The Industrial Co	Industrial Manufacturing	20,574,030	3.42%
Impact Solar 1, LLC	Commercial Building	20,000,005	3.32%
ONCOR Electric Delivery	Electric Utility/Power Plant	16,361,858	2.72%
Midcontinent Express	Oil & Gas Pipeline	11,717,230	1.95%
Samson Solar Energy III LLC	Electric Utility/Power Plant	11,520,000	1.91%
Cypress Creek Renewables	Solar Energy Plant	10,719,210	1.78%
Lamar County Electric Co-Op	Electric Utility/Power Plant	7,260,570	1.21%
Gulf Crossing Pipeline Co.	Oil & Gas Pipeline	6,098,500	1.01%
Texas-New Mexico Power Co.	Electric Utility/Power Plant	5,380,600	0.89%
Top 10 Totals:		\$136,497,003	22.67%

⁽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 22% of the District's tax base, with the majority of such property comprised of utilities related business activities. 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 market sector, 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	6/30/2022	\$655,000	100.00%	\$655,000
Lamar County	6/30/2022	6,150,000	11.65%	716,475
Paris, City of	6/30/2022	89,460,000	⁽²⁾	-
Red River County	6/30/2022	-	1.83%	-
Estimated (Net) Overlapping Debt				\$1,371,475
Prairiland ISD	9/22/2022	\$23,125,000	100.00%	23,125,000
Total Direct & Estimated Overlapping Debt				\$24,496,475
Total and Overlapping Debt as a % of 2022 Certified Taxable Assessed Valuation				2.77% ⁽³⁾
Total and Overlapping Debt as a Per Capita				\$4,388.48 ⁽³⁾

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Less than 0.01%

⁽³⁾ Includes the Bonds. Preliminary, subject to change.

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TABLE 7 - Tax Supported Debt Service Requirements

Fiscal Year Ending 6/30	Outstanding Debt Service	Plus: The Bonds ⁽¹⁾⁽²⁾			New Total Debt Service Requirements ⁽¹⁾
		Principal	Interest	Total	
2023	\$887,875	\$730,000	\$169,832	\$899,832	\$1,787,707
2024	919,562	660,000	391,050	1,051,050	1,970,612
2025	890,175	620,000	358,050	978,050	1,868,225
2026	836,300	570,000	327,050	897,050	1,733,350
2027	797,975	550,000	298,550	848,550	1,646,525
2028	737,000	225,000	271,050	496,050	1,233,050
2029	971,888	210,000	259,800	469,800	1,441,688
2030	891,158	180,000	249,300	429,300	1,320,458
2031	826,837	190,000	240,300	430,300	1,257,137
2032	758,886	140,000	230,800	370,800	1,129,686
2033	799,466	145,000	225,200	370,200	1,169,666
2034	787,784	150,000	219,400	369,400	1,157,184
2035	778,825	135,000	213,400	348,400	1,127,225
2036	787,125	25,000	208,000	233,000	1,020,125
2037	789,375	15,000	207,000	222,000	1,011,375
2038	795,550	475,000	206,400	681,400	1,476,950
2039	246,850	205,000	187,400	392,400	639,250
2040	524,575	210,000	179,200	389,200	913,775
2041	527,800	225,000	170,800	395,800	923,600
2042	525,650	265,000	161,800	426,800	952,450
2043	424,700	275,000	151,200	426,200	850,900
2044	424,950	290,000	140,200	430,200	855,150
2045	419,975	305,000	128,600	433,600	853,575
2046	419,775	310,000	116,400	426,400	846,175
2047	424,200	325,000	104,000	429,000	853,200
2048	423,250	340,000	91,000	431,000	854,250
2049	422,000	355,000	77,400	432,400	854,400
2050	420,450	365,000	63,200	428,200	848,650
2051	423,525	380,000	48,600	428,600	852,125
2052	421,225	835,000	33,400	868,400	1,289,625
Total	\$19,304,702	\$9,705,000	\$5,728,382	\$15,433,382	\$34,738,084
Average Annual Debt Service Requirement					\$1,157,936
Maximum Debt Service Requirement					\$1,970,612

⁽¹⁾ Preliminary, subject to change.

⁽²⁾ Interest calculated at assumed rates for purposes of illustration. Preliminary, subject to change.

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TABLE 8 - Authorized But Unissued Bonds

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Amount Issued</u>	<u>Unissued Balance</u>
School Building	5/7/2022	\$8,000,000	\$0	\$8,000,000 ⁽¹⁾	\$0 ⁽²⁾
Extracurricular/Recreational Improvements	5/7/2022	\$8,000,000	\$0	\$1,780,000 ⁽¹⁾	\$6,220,000 ⁽²⁾

The District's voters could authorize the issuance of additional new money bonds at a future election. In addition, the District may 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 intends to apply against voted authorization. Preliminary, subject to change.

⁽²⁾ Preliminary, subject to change.

TABLE 9 - Other Obligations

As of June, 2022, other obligations of the District included the following Maintenance Tax Notes, Taxable Series 2011 (Qualified School Construction), which have a Federal Tax Credit at a rate of 5.79%. Certain automatic Federal spending reductions (the "Sequester") were put into effect on March 1, 2013. The Sequester includes a reduction in the amount of the Federal subsidy to be paid to issuers in connection with and qualified school construction bonds, including the District's maintenance tax notes. The reduction is currently 5.9% of the interest.

<u>Fiscal Year Ending 6/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Less: Subsidy</u>	<u>Total Payment</u>
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

Source: Municipal Advisory Council of Texas

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

For Fiscal Year ended June 30,	2021	2020	2019	2018	2017
REVENUES:					
Total Local and Intermediate Sources	\$3,341,466	\$3,017,570	\$2,575,403	\$2,483,591	\$2,378,031
State Program Revenues	7,887,966	8,335,673	7,570,598	7,394,325	7,023,193
Federal Program Revenues	119	553	619	507	471
Total Revenues	\$11,229,551	\$11,353,796	\$10,146,620	\$9,878,423	\$9,401,695
EXPENDITURES:					
Instruction	\$5,215,836	\$5,866,397	\$5,297,021	\$5,386,042	\$5,125,936
Instructional Resources & Media Services	122,066	124,577	123,145	125,343	121,833
Curriculum and Staff Development	124,644	57,790	32,371	32,404	26,924
School Leadership	819,298	785,680	722,295	656,930	636,393
Guidance, Counseling & Evaluation Services	142,375	142,773	124,377	123,627	122,135
Health Services	80,975	88,575	79,757	74,409	82,114
Student Transportation	398,613	442,114	363,868	375,944	500,609
Food Services	12,552	14,635	13,149	12,271	14,873
Co-curricular/Extracurricular Activities	469,239	477,967	509,146	555,063	500,685
General Administration	558,371	488,649	443,453	440,822	416,995
Facilities Maintenance & Operations	1,504,309	1,461,911	916,945	934,715	1,050,942
Security Monitoring and Services	1,813	3,983	23,522	16,392	1,078
Data Processing Services	135,825	158,686	122,778	127,437	139,096
Debt Service	39,071	37,584	36,034	34,491	32,913
Capital Outlay	-	-	25,826	20,000	687,187
Payments to Shared Service Arrangements	625,709	497,344	455,423	549,763	526,150
Other Intergovernmental	45,960	43,603	39,341	39,935	40,061
Total Expenditures	\$10,296,656	\$10,692,268	9,328,451	9,505,588	10,025,924
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	\$87,895	\$539,722	817,379	372,835	(624,229)
Fund Balances – Beginning	\$9,209,850	\$8,670,128	\$7,852,751	\$7,479,916	\$8,104,145
Fund Balances – Ending ⁽²⁾	\$9,297,745	\$9,209,850	\$8,670,128	\$7,852,751	\$7,479,916

⁽¹⁾ Source: District's Audited Financial Statements⁽²⁾ The District's General Fund Balance was \$11,833,064 as of June 30, 2022.

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

For Fiscal Year Ended, June 30	2021	2020	2019	2018	2017
ASSETS:					
Cash & Cash Equivalents	\$10,201,685	\$9,526,313	8,716,769	7,938,478	7,833,199
Taxes Receivable, Net	327,397	314,249	331,572	22,203	275,026
Due from Other Governments	724,666	531,871	777,589	659,591	387,561
Due from Other Funds	726,917	-	-	-	-
Other Receivables	-	-	1,684	937	672
Inventories, at cost	9,851	9,247	15,885	15,426	17,533
Total Assets	\$11,990,516	\$10,381,680	\$9,843,526	\$8,636,635	\$8,513,991
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$38,101	\$28,814	138,363	52,935	109,144
Accrued Wages Payable	677,310	713,184	617,050	611,135	577,885
Due to Other Funds	888,645	27,449	790	-	-
Payable to Other Governments	694,620	-	-	-	-
Accrued Expenditures	84,633	88,134	85,622	97,612	72,021
Deferred/Unearned Revenues	-	-	331,573	222,204	-
Total Liabilities	\$2,383,309	\$857,581	\$1,173,398	\$983,886	\$759,050
FUND EQUITY					
Reserve Fund Balance:					
Investment in Inventory	\$9,851	\$9,247	15,885	15,426	17,533
Other Reserves	-	-	-	-	\$275,026
Designated Fund Balance:					
Construction	-	393,816	\$1,447,065	\$1,447,065	\$1,447,065
Unreserved, Undesignated Fund Balance:	9,287,894	8,806,787	\$7,207,178	\$6,390,258	\$6,015,317
TOTAL FUND EQUITY	\$9,297,745	\$9,209,850	\$8,670,128	\$7,852,749	\$7,754,941
TOTAL LIABILITIES & FUND EQUITY	\$11,990,516	\$10,381,680	9,843,526	8,836,635	8,513,991

⁽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.

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TABLE 12 - Current Investments ⁽¹⁾

	Percent	Book Value	Market Value
Farmers Bank & Trust Account	73.75%	\$8,724,339	\$8,724,339
Certificate of Deposit	26.25%	3,104,925	3,104,925
Total	100.00%	\$11,829,264	\$11,829,264

⁽¹⁾ Source: District's records. Unaudited as of June 30, 2022.

TABLE 13 - Tax Adequacy

2023 Net Principal and Interest Requirements	\$1,787,707	⁽¹⁾
\$0.2061 Tax Rate at 98% Collection Produces	\$1,788,513	⁽²⁾
Average Net Annual Principal and Interest Requirements, 2023-2052	\$1,157,936	⁽¹⁾
\$0.1335 Tax Rate at 98% Collection Produces	\$1,158,498	⁽²⁾
Maximum Net Principal and Interest Requirements, 2024	\$1,970,612	⁽¹⁾
\$0.2271 Tax Rate at 98% Collection Produces	\$1,970,749	⁽²⁾

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

⁽²⁾ Calculation based upon the 2022 Net Taxable Value at a 98% collections rate.

TABLE 14 - Interest and Sinking Fund Budget Projection

Interest & Sinking Fund Balance, 07/01/22 (Beginning) ⁽¹⁾	\$1,193,522
Estimated Tax Supported Debt Service Requirements for FYE 2023 ⁽²⁾	\$2,116,647
Projected Interest & Sinking Fund Tax Revenue	\$1,974,662
EDA/IFA from Texas Education Agency ⁽²⁾	-
ASAHE from Texas Education Agency ⁽²⁾	18,206
Transfers In/(Out)	-
Projected Interest & Sinking Fund Balance, 06/30/23 (Ending)	\$1,069,744
Net Increase/(Decrease) in Fund Balance	(\$123,778)

⁽¹⁾ Source: The District's records. Unaudited.

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

⁽³⁾ Source: Texas Education Agency Summary of Finances dated June 27, 2022.

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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>
2013	1,128
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	1,079 ⁽¹⁾

⁽¹⁾ Enrollment at year end.

District Staff

Teachers	86
Auxiliary Personnel	35
Teachers' Aides & Secretaries	24
Administrators	10
Other	32

Campus Enrollment

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>
Blossom Elementary	PreK - 5	423
Deport Elementary	PreK - 5	135
Prairiland Junior High	6 - 8	239
Prairiland High School	9-12	282

Unemployment Rates

	<u>May</u> <u>2019</u>	<u>May</u> <u>2020</u>	<u>May</u> <u>2021</u>	<u>May</u> <u>2022</u>
Lamar County ⁽¹⁾	3.1%	8.9%	5.3%	4.0%
Red River County ⁽¹⁾	4.0%	7.9%	5.8%	4.6%
State of Texas	3.4%	11.8%	5.9%	4.2%
United States	3.6%	13.2%	5.8%	3.6%

⁽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, 2021.

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

**PRAIRILAND
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2021**

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2021

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CERTIFICATE OF BOARD

Prairiland Independent School District
Name of School District

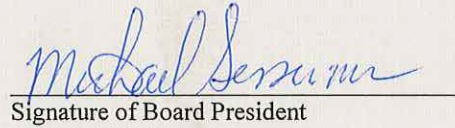
Lamar
County

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 August 31, 2021 at a meeting of the Board of Trustees of such school district on the 18 of November, 2021.



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)



**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:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Prairiland Independent School District as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11, budgetary comparison information on page 48, schedule of the District's proportionate share of the net pension liability (TRS) on pages 49-50, schedule of District contributions to TRS Pension plan on pages 51-52, schedule of the District's proportionate share of the OPEB liability (TRS) on page 53, and schedule of District contributions to TRS OPEB plan on page 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.

Other 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 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 schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-4 and L-1. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2021, 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 9, 2021

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, 2021. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

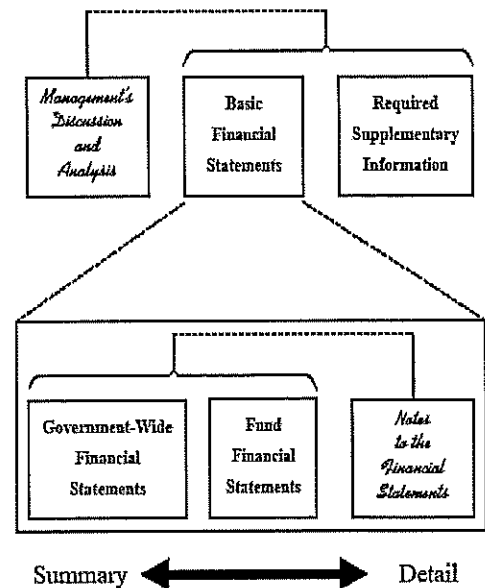
- The District's total combined net position was \$10,184,508 at June 30, 2021.
- During the year, the District's expenses were \$793,972 less than the \$13,423,880 generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$9,297,745.

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 \$10,184,508 at June 30, 2021.

Table I
Prairiland Independent School District
NET POSITION

	Governmental Activities 2021	Governmental Activities 2020	Total % Change
Current and other assets	12,478,214	11,002,975	13.41%
Capital assets	11,950,374	12,009,357	-0.49%
Total Assets	24,428,588	23,012,332	6.15%
Deferred outflows of resources	1,530,223	1,721,125	-11.09%
Other liabilities	1,782,009	1,039,278	71.47%
Long-term liabilities	7,195,588	7,387,502	-2.60%
TRIS net pension liability	1,867,974	2,004,846	-6.83%
TRIS net OPEB liability	2,594,252	3,147,161	-17.57%
Total Liabilities	13,439,823	13,578,787	-1.02%
Deferred inflows of resources	2,334,480	1,764,140	32.33%
Net Position:			
Net Investment in Capital Assets	5,089,442	4,927,334	3.29%
Restricted	362,520	503,665	-28.02%
Unrestricted	4,732,546	3,959,533	-19.52%
Total Net Position	10,184,508	9,390,532	8.46%

The \$4,732,546 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 \$13,423,880. A significant portion, 58 percent, of the District's revenue comes from state aid. 23 percent comes from taxes, and 13 percent comes from operating grants, while only 1 percent relates to charges for services. The remaining 5 percent was generated from miscellaneous resources.

The M&O tax rate decreased from the prior year at \$0.9700 to \$0.9664; in addition, property tax appraisal went up increasing tax revenues to \$3,107,172. The total cost of all programs and services was \$12,629,908; 78 percent of these costs are for instructional and student support services.

Table II
Prairiland Independent School District
CHANGES IN NET POSITION

	Governmental Activities 2021	Governmental Activities 2020	Total % Change
Revenues:			
Program Revenues:			
Charges for services	125,283	159,277	-21.34%
Operating and capital grants and contributions	1,769,124	1,329,867	33.03%
General Revenues:			
Property taxes and related revenues	3,107,172	2,882,361	7.80%
State aid - formula grants	7,835,882	8,173,550	-4.13%
Investment earnings	37,928	127,932	-70.35%
Miscellaneous	548,491	343,969	59.46%
Total Revenues	<u>13,423,880</u>	<u>13,016,956</u>	<u>3.13%</u>
Expenses:			
Instruction, curriculum and media services	7,127,072	7,225,631	-1.36%
School leadership	885,741	926,939	-4.44%
Guidance, counseling, evaluation and health services	274,936	252,519	8.88%
Student (Pupil) Transportation	414,168	410,919	
Food services	525,707	542,150	-3.03%
Cocurricular activities	624,418	620,082	0.70%
General administration	573,169	530,346	8.07%
Facilities maintenance & operations	1,174,315	1,130,336	3.89%
Security and Monitoring Services	3,980	5,817	-31.58%
Data processing services	142,568	171,290	-16.77%
Debt services	212,165	277,485	-23.54%
Payments to fiscal agent/member of SSA	625,709	497,344	25.81%
Other intergovernmental charges	45,960	43,603	5.41%
Total Expenses	<u>12,629,908</u>	<u>12,634,461</u>	<u>-0.04%</u>
Increase (Decrease) in Net Position	793,972	382,495	107.58%
Net Position at Beginning of Year	<u>9,390,536</u>	<u>9,008,041</u>	<u>4.25%</u>
Net Position at Ending of Year	<u><u>10,184,508</u></u>	<u><u>9,390,536</u></u>	<u><u>8.46%</u></u>

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 2021	Governmental Funds 2020	Total \$ Change	Total % Change
Revenues:				
Local and Intermediate Sources	\$ 3,819,210	\$ 3,532,389	\$ 286,821	8.1%
State Program Revenues	8,079,706	8,652,101	(572,395)	-6.6%
Federal Program Revenues	1,385,811	476,789	909,022	190.7%
Total Revenues	<u>13,284,727</u>	<u>12,661,279</u>	<u>623,448</u>	<u>4.7%</u>
Expenditures:				
Instruction	6,283,445	6,235,806	47,639	0.8%
Instructional resources & media services	123,704	128,370	(4,666)	-3.6%
Curriculum and instructional staff development	124,644	57,790	66,854	115.7%
School leadership	862,340	849,086	13,254	1.6%
Guidance, Counseling and Evaluation Services	142,375	142,773	(398)	-0.3%
Health Services	125,113	88,575	36,538	41.3%
Food Services	398,613	442,114	(43,501)	-9.8%
Student (Pupil) Transportation	507,569	501,691	5,878	1.2%
Extracurricular activities	496,832	494,455	2,377	0.5%
General administration	558,371	488,712	69,659	14.3%
Facilities maintenance & operations	1,523,497	1,461,911	61,586	4.2%
Security and Monitoring Services	1,813	3,983	(2,170)	-54.5%
Data processing services	135,825	158,686	(22,861)	-14.4%
Debt services	615,132	562,822	52,310	9.3%
Capital Outlay	162,823	-	162,823	100.0%
Payments to fiscal agent/member of SSA	625,709	497,344	128,365	25.8%
Other Intergovernmental Charges	45,960	43,603	2,357	5.4%
Total Expenditures	<u>12,733,765</u>	<u>12,157,721</u>	<u>576,044</u>	<u>4.7%</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>550,962</u>	<u>503,558</u>	<u>47,404</u>	<u>9.4%</u>
Other Financing Sources (Uses):				
Capital Related Debt Issued	2,150,000	-	2,150,000	100.0%
Transfers In	845,000	121,806	723,194	593.7%
Premium or Discount on Issuance of Bonds	166,523	-	166,523	100.0%
Transfers Out (Use)	(845,000)	(121,806)	(723,194)	-593.7%
Other (Uses)	(2,235,347)	-	(2,235,347)	-100.0%
Total Other Financing Sources (Uses)	<u>81,176</u>	<u>-</u>	<u>81,176</u>	<u>100.0%</u>
Net Change in Fund Balances	632,138	503,558	128,580	25.5%
Fund Balance - Beginning of Year	<u>9,723,823</u>	<u>9,220,265</u>	<u>503,558</u>	<u>5.5%</u>
Fund Balance - End of Year	<u>\$ 10,355,961</u>	<u>\$ 9,723,823</u>	<u>\$ 632,138</u>	<u>6.5%</u>

The cost of all *governmental* activities this year was \$12,733,765.

- However, the amount that our taxpayers paid for these activities through property taxes was only \$3,107,172.
- Some of the cost was paid by those who directly benefited from the programs \$125,283 or by grants and contributions \$1,769,124.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$13,284,727, an increase of 4.7% 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 \$1,463,351 below final budget amounts, and revenues were (\$388,854) less than estimated amounts. The most significant positive variance resulted from instruction and instruction related services.

General Fund:

Increase (Decrease) in Local and Intermediate Sources	250,000
(Increase) in expenditure - Instruction	(116,999)
(Increase) in expenditure - Health Services	(60,000)
(Increase) in expenditure - General Administration	(39,000)
(Increase) in expenditure - Facilities Maintenance and Operations	(502,559)
(Increase) in expenditure - Data Processing Services	(20,000)
(Increase) in expenditure - Payments to Fiscal Agent/Member Districts of SSA	(17,000)
(Increase) in other financing sources (uses) - Transfers Out (Use)	<u>(870,000)</u>
	<u><u>(1,375,558)</u></u>

Food Service Fund:

Increase in other financing sources - Transfers In	<u>85,000</u>
	<u><u>85,000</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the District had invested \$11,950,374 in a broad range of capital assets, including land, equipment, buildings, and vehicles. This amount represents a net decrease (including additions and deductions) of (\$58,983) or (0.49%) less than last year.

Long Term Debt

At year-end the District had \$6,846,000 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 to \$0.8720 for maintenance and operations. The district increased the interest and sinking tax rate to \$0.2230 for the coming school year, which still decreased the overall tax rate slightly. The district's total tax rate for 2022 is \$1.095.

The 2022 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 2022. Expenditures are expected to remain constant, even with increases for salaries. There are no expected changes in staffing other than adding interventionist with ESSER III grant funds. The district will begin the 2022 with no teacher vacancies.

The district currently has entered into six chapter 313 agreements with various Solar Farms. 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 abatement, 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 should begin by fiscal year 2022. The district will use the additional I&S funds to pay for bonds that will add additional classrooms to the existing schools.

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, 2021

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 7,507,588
1120 Current Investments	3,189,506
1220 Property Taxes - Delinquent	507,781
1230 Allowance for Uncollectible Taxes	(137,483)
1240 Due from Other Governments	1,390,617
1300 Inventories	20,205
Capital Assets:	
1510 Land	202,342
1520 Buildings and Improvements, Net	10,616,158
1530 Furniture and Equipment, Net	717,842
1580 Construction in Progress	414,032
1000 Total Assets	24,428,588
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	307,806
1705 Deferred Outflow Related to TRS Pension	695,791
1706 Deferred Outflow Related to TRS OPEB	526,626
1700 Total Deferred Outflows of Resources	1,530,223
LIABILITIES	
2110 Accounts Payable	130,869
2140 Accrued Interest Payable	13,121
2160 Accrued Wages Payable	723,697
2180 Due to Other Governments	801,945
2200 Accrued Expenses	91,195
2300 Unearned Revenue	21,182
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Notes, Leases, etc	344,000
Due in More than One Year:	
2502 Bonds, Notes, Leases, etc.	6,851,588
2540 Net Pension Liability (District's Share)	1,867,974
2545 Net OPEB Liability (District's Share)	2,594,252
2000 Total Liabilities	13,439,823
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	391,946
2606 Deferred Inflow Related to TRS OPEB	1,942,534
2600 Total Deferred Inflows of Resources	2,334,480
NET POSITION	
3200 Net Investment in Capital Assets	5,089,442
Restricted:	
3820 Restricted for Federal and State Programs	743
3850 Restricted for Debt Service	361,777
3900 Unrestricted	4,732,546
3000 Total Net Position	\$ 10,184,508

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, 2021

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 6,873,199	\$ 26,779	\$ 1,218,098	\$ (5,628,322)
12	Instructional Resources and Media Services	126,197	-	2,691	(123,506)
13	Curriculum and Instructional Staff Development	127,676	-	2,681	(124,995)
23	School Leadership	885,741	-	22,299	(863,442)
31	Guidance, Counseling, and Evaluation Services	146,378	-	4,341	(142,037)
33	Health Services	128,558	-	47,302	(81,256)
34	Student (Pupil) Transportation	414,168	-	4,273	(409,895)
35	Food Services	525,707	17,040	419,628	(89,039)
36	Extracurricular Activities	624,418	81,464	7,581	(535,373)
41	General Administration	573,169	-	9,733	(563,436)
51	Facilities Maintenance and Operations	1,174,315	-	28,356	(1,145,959)
52	Security and Monitoring Services	3,980	-	-	(3,980)
53	Data Processing Services	142,568	-	2,141	(140,427)
72	Debt Service - Interest on Long-Term Debt	129,739	-	-	(129,739)
73	Debt Service - Bond Issuance Cost and Fees	82,426	-	-	(82,426)
93	Payments Related to Shared Services Arrangements	625,709	-	-	(625,709)
99	Other Intergovernmental Charges	45,960	-	-	(45,960)
	[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 12,629,908</u>	<u>\$ 125,283</u>	<u>\$ 1,769,124</u>	<u>(10,735,501)</u>
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes			2,751,254	
DT	Property Taxes, Levied for Debt Service			355,918	
SF	State Aid - Formula Grants			7,835,882	
IE	Investment Earnings			37,928	
MI	Miscellaneous Local and Intermediate Revenue			548,491	
TR	Total General Revenues			<u>11,529,473</u>	
CN	Change in Net Position			793,972	
NB	Net Position - Beginning			<u>9,390,536</u>	
NE	Net Position - Ending			<u>\$ 10,184,508</u>	

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

Data Control Codes	10 General Fund	ESSER School Emergency Relief II	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 7,013,429	\$ -	\$ 494,159	\$ 7,507,588
1120 Investments - Current	3,188,256	-	1,250	3,189,506
1220 Property Taxes - Delinquent	448,894	-	58,887	507,781
1230 Allowance for Uncollectible Taxes	(121,497)	-	(15,986)	(137,483)
1240 Due from Other Governments	724,666	572,840	93,111	1,390,617
1260 Due from Other Funds	726,917	-	885,645	1,612,562
1300 Inventories	9,851	-	10,354	20,205
1000 Total Assets	<u>\$ 11,990,516</u>	<u>\$ 572,840</u>	<u>\$ 1,527,420</u>	<u>\$ 14,090,776</u>
LIABILITIES				
2110 Accounts Payable	\$ 38,101	\$ -	\$ 92,768	\$ 130,869
2160 Accrued Wages Payable	677,310	-	46,387	723,697
2170 Due to Other Funds	885,645	572,840	154,077	1,612,562
2180 Due to Other Governments	694,620	-	107,325	801,945
2200 Accrued Expenditures	84,633	-	6,562	91,195
2300 Unearned Revenue	-	-	21,182	21,182
2000 Total Liabilities	<u>2,380,309</u>	<u>572,840</u>	<u>428,301</u>	<u>3,381,450</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	312,462	-	40,903	353,365
2600 Total Deferred Inflows of Resources	<u>312,462</u>	<u>-</u>	<u>40,903</u>	<u>353,365</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	9,851	-	-	9,851
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	743	743
3480 Retirement of Long-Term Debt	-	-	333,995	333,995
Committed Fund Balance:				
3510 Construction	-	-	622,177	622,177
3545 Other Committed Fund Balance	-	-	101,301	101,301
3600 Unassigned Fund Balance	9,287,894	-	-	9,287,894
3000 Total Fund Balances	<u>9,297,745</u>	<u>-</u>	<u>1,058,216</u>	<u>10,355,961</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 11,990,516</u>	<u>\$ 572,840</u>	<u>\$ 1,527,420</u>	<u>\$ 14,090,776</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, 2021

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	10,355,961
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 \$24,069,946 and the accumulated depreciation was (\$12,060,589). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. At the beginning of the year, these liabilities totaled (\$7,387,498). 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.		4,621,859
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 2021 capital outlays and debt principal payments is to increase net position.		1,015,652
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 \$695,791, a deferred resource inflow in the amount of (\$391,946), and a net position liability in the amount of (\$1,867,974). This resulted in an increase(decrease) in net position.		(1,564,129)
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 \$526,626, a deferred resource inflow in the amount of (\$1,942,534), and a net OPEB liability in the amount of (\$2,594,252). This resulted in an increase(decrease) in net position.		(4,010,160)
5 The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.		(768,635)
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.		533,960
19 Net Position of Governmental Activities	\$	10,184,508

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, 2021

Data Control Codes	10 General Fund	ESSER School Emergency Relief II	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,341,466	\$ -	\$ 477,744	\$ 3,819,210
5800 State Program Revenues	7,887,966	-	191,740	8,079,706
5900 Federal Program Revenues	119	572,840	812,852	1,385,811
5020 Total Revenues	<u>11,229,551</u>	<u>572,840</u>	<u>1,482,336</u>	<u>13,284,727</u>
EXPENDITURES:				
Current:				
0011 Instruction	5,215,836	572,840	494,769	6,283,445
0012 Instructional Resources and Media Services	122,066	-	1,638	123,704
0013 Curriculum and Instructional Staff Development	124,644	-	-	124,644
0023 School Leadership	819,298	-	43,042	862,340
0031 Guidance, Counseling, and Evaluation Services	142,375	-	-	142,375
0033 Health Services	80,975	-	44,138	125,113
0034 Student (Pupil) Transportation	398,613	-	-	398,613
0035 Food Services	12,552	-	495,017	507,569
0036 Extracurricular Activities	469,239	-	27,593	496,832
0041 General Administration	558,371	-	-	558,371
0051 Facilities Maintenance and Operations	1,504,309	-	19,188	1,523,497
0052 Security and Monitoring Services	1,813	-	-	1,813
0053 Data Processing Services	135,825	-	-	135,825
Debt Service:				
0071 Principal on Long-Term Debt	36,000	-	270,000	306,000
0072 Interest on Long-Term Debt	3,071	-	223,635	226,706
0073 Bond Issuance Cost and Fees	-	-	82,426	82,426
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	162,823	162,823
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	625,709	-	-	625,709
0099 Other Intergovernmental Charges	45,960	-	-	45,960
6030 Total Expenditures	<u>10,296,656</u>	<u>572,840</u>	<u>1,864,269</u>	<u>12,733,765</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>932,895</u>	<u>-</u>	<u>(381,933)</u>	<u>550,962</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued	-	-	2,150,000	2,150,000
7915 Transfers In	-	-	845,000	845,000
7916 Premium or Discount on Issuance of Bonds	-	-	166,523	166,523
8911 Transfers Out (Use)	(845,000)	-	-	(845,000)
8949 Other (Uses)	-	-	(2,235,347)	(2,235,347)
7080 Total Other Financing Sources (Uses)	<u>(845,000)</u>	<u>-</u>	<u>926,176</u>	<u>81,176</u>
1200 Net Change in Fund Balances	87,895	-	544,243	632,138
0100 Fund Balance - July 1 (Beginning)	9,209,850	-	513,973	9,723,823
3000 Fund Balance - June 30 (Ending)	<u>\$ 9,297,745</u>	<u>\$ -</u>	<u>\$ 1,058,216</u>	<u>\$ 10,355,961</u>

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, 2021

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	632,138
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 2021 capital outlays and debt principal payments is to increase net position.		1,015,652
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.		(768,635)
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 increase net position.		10,355
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 \$129,263. 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 (\$120,073). 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 (\$172,444). The net result is an increase (decrease) in the change in net position.		(163,254)
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 decrease by (\$43,568). 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 \$43,409. 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 (\$67,557). The net result is an increase (decrease) in the change in net position.		67,716
Change in Net Position of Governmental Activities	\$	793,972

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, 2021

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 137,823
Total Assets	<u>137,823</u>
NET POSITION	
Restricted for Other Purposes	<u>137,823</u>
Total Net Position	<u>\$ 137,823</u>

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

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Custodial Fund
ADDITIONS:	
Contributions to Student Groups	\$ 149,427
Total Additions	<u>149,427</u>
DEDUCTIONS:	
Other Deductions	<u>122,515</u>
Total Deductions	<u>122,515</u>
Change in Fiduciary Net Position	26,912
Total Net Position - July 1 (Beginning)	-
Prior Period Adjustment	<u>110,911</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 137,823</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, 2021**

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.

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.

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

ESSER School Emergency Relief Fund II: This fund accounts for resources restricted for specific purposes by a grant in a special revenue fund. ESSER is one of multiple funding sources for school districts under the Coronavirus Aid, Relief and Economic Security (CARES) Act to assist in operations during the disruptions and closures related to Coronavirus.

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.

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.

Custodial Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency 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, 2021**

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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.

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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.

o. Workers' Compensation Plan

For the year ended June 30, 2021 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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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.
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	250,000
(Increase) in expenditure - Instruction	(116,999)
(Increase) in expenditure - Health Services	(60,000)
(Increase) in expenditure - General Administration	(39,000)
(Increase) in expenditure - Facilities Maintenance and Operations	(502,559)
(Increase) in expenditure - Data Processing Services	(20,000)
(Increase) in expenditure - Payments to Fiscal Agent/Member Districts of SSA	(17,000)
(Increase) in other financing sources (uses) - Transfers Out (Use)	(870,000)
	<u>(1,375,558)</u>
Food Service Fund:	
Increase in other financing sources - Transfer In	85,000
	<u>85,000</u>

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:

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	June 30, 2021
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	743
Nonappropriated Budget Funds	<u>101,301</u>
All Nonmajor Governmental Special Revenue Funds	<u><u>102,044</u></u>

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At June 30, 2021, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,645,411 and the bank balance was \$7,787,641. The District's cash deposits at June 30, 2021 and during the year ended June 30, 2021, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at June 30, 2021 are shown below.

Investment Type	Investment Maturities (in years)				
	Fair Value *	Less than 1	1 - 5	6 - 10	More than 10
Investment Pools**					
TexPool Investments	1,587,488	1,587,488	-	-	-
Lonestar Investments	<u>1,602,018</u>	<u>1,602,018</u>	-	-	-
Total	<u><u>3,189,506</u></u>	<u><u>3,189,506</u></u>	-	-	-

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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*Fair value is the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Under GASB 72, all investments are recorded at fair value.

**Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net Assets to compute share prices. Accordingly, the fair value of the assets in these pools is the same as the value of the shares in each pool.

3. Analysis of Specific Deposit and Investment Risks

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

i. Credit Risk

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

At June 30, 2021, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

Lone Star	AAA
TexPool	AAAm

ii. Custodial Credit Risk

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

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

At year end, the District was not exposed to custodial credit risk.

iii. Concentration of Credit Risk

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

iv. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

v. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Lone Star:

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool:

The District invests in the Texas Local Government Investment Pool (TexPool), which is local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard and Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value

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of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

D. Capital Assets

Capital Asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balances	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets not being depreciated:				
Land	\$ 202,342	\$ -	\$ -	\$ 202,342
Construction in progress	359,463	564,327	(509,758)	414,032
Total capital assets not being depreciated	<u>561,805</u>	<u>564,327</u>	<u>(509,758)</u>	<u>616,374</u>
Capital assets being depreciated:				
Buildings and improvements	20,304,958	22,500	509,758	20,837,216
Equipment & vehicles	<u>3,203,183</u>	<u>122,825</u>	<u>-</u>	<u>3,326,008</u>
Total capital assets being depreciated	<u>23,508,141</u>	<u>145,325</u>	<u>509,758</u>	<u>23,143,708</u>
Less accumulated depreciation:				
Buildings and improvements	(9,677,797)	(543,261)	-	(10,221,058)
Equipment & vehicles	<u>(2,382,792)</u>	<u>(225,374)</u>	<u>-</u>	<u>(2,608,166)</u>
Total accumulated depreciation	<u>(12,060,589)</u>	<u>(768,635)</u>	<u>-</u>	<u>(12,829,224)</u>
Total capital assets being depreciated, net	<u>11,447,552</u>	<u>(623,310)</u>	<u>509,758</u>	<u>10,314,484</u>
Governmental activities capital assets, net	<u>\$ 12,009,357</u>	<u>\$ (58,983)</u>	<u>\$ -</u>	<u>\$ 11,950,374</u>

In the current year, the District incurred an additional cost of \$199,000 to complete the baseball and softball field project for a total cost of \$509,758. The tennis court project had prior year costs of \$48,705 and additional current year costs of \$202,504, for a total of \$251,209. These costs are reflected in construction in progress as the project was still not completed in the current year. The District also entered into a new construction contract in the amount of \$709,933 for Blossom Elementary Drive. Current year costs of this project are seen in construction in progress at \$162,823.

The District installed a new softball fence during the current year for a total cost of \$22,500. They also purchased a bus for \$97,825 and two lawn mowers for a total cost of \$25,000.

On July 13, 2021 the District entered into an architect contract with Harrison, Walker and Harper LLC in the amount of \$200,354 for the 2021 Bond Program Projects.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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Depreciation was charged to functions as follows:

11	Instruction	\$	428,922
34	Student transportation		109,664
35	Food services		8,434
36	Cocurricular/Extracurricular activities		119,648
41	General administration		4,000
51	Plant maintenance and operations		91,374
52	Security and monitoring services		2,167
53	Data processing services		4,426
			\$ 768,635

E. Interfund Balances and Activities

1. Due to and From Other Funds:

Due to Fund:		Due from Fund:	
699-Capital Projects	\$ 785,000	199-General Fund	\$ 785,000
199-General Fund	726,917	281-ESSER School Emergency Relief II	572,840
		Other Nonmajor Special Revenue Funds	154,077
			726,917
Other Nonmajor Special Revenue Funds	100,645	199-General Fund	100,645
Total	\$1,612,562	Total	\$1,612,562

2. Transfer To and From Other Funds

Transfer to and from other funds at June 30, 2021, consisted of the following:

Transfer To:		Transfer From:	
240-Breakfast & Lunch Program	\$ 60,000	199-General Fund	\$ 845,000
699-Capital Projects Fund	785,000		
Total	\$ 845,000	Total	\$ 845,000

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 \$165,000 in principal and \$52,275 in interest.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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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 \$156,475 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. As a result, the Series 2011 has an outstanding balance of \$170,000 as of June 30, 2021. The remaining payment of \$170,000 will be paid in 2022. The refunding resulted in a gross savings of \$214,189 and net present value benefit of \$195,931. Bond proceeds are accounted for in the Debt Service Fund as other financing sources in the amount of \$2,150,000 for refunding bonds issued and \$166,523 for premium on issuance of bonds. The District paid \$81,176 in bond issuance costs and \$14,885 in interest.

The following is a summary of the changes in the District's general long-term debt for the year ended June 30, 2021:

<u>Description</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amounts Outstanding 7/1/2020</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 6/30/2021</u>
Unlimited Tax Refunding Series 2011	2% - 4%	3,360,000	2,485,000	-	(a) 165,000 (b) 2,150,000	170,000
Unlimited Tax Refunding Series 2012	2%	4,965,000	4,410,000	-	(a) 105,000	4,305,000
Unlimited Tax Refunding Series 2020	1.79% - 5%	2,150,000	-	(b) 2,150,000	-	2,150,000
Total General Obligations			<u>6,895,000</u>	<u>2,150,000</u>	<u>2,420,000</u>	<u>6,625,000</u>

(a) Annual debt payments total \$270,000

(b) Refunding of Series 2011 of \$2,150,000

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>
2022	305,000	314,912	619,912
2023	305,000	217,200	522,200
2024	295,000	204,437	499,437
2025	305,000	191,199	496,199
2026	315,000	177,499	492,499
2027-2031	1,825,000	704,155	2,529,155
2032-2036	2,230,000	422,106	2,652,106
2037-2038	1,045,000	42,300	1,087,300
Total	<u>6,625,000</u>	<u>2,273,808</u>	<u>8,898,808</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 \$322,738 at June 30, 2021. Bond premium/discount proceeds are deferred and amortized over the life of the bonds. Premium/discount proceeds on the issuance of the Bonds, Series 2020 of \$166,523 was added during the year ended June 30, 2021. The current year amortization for the premium/discount of \$20,590 is reflected in the Statement of Activities for the year ended June 30, 2021.

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	Series 2011	Series 2012	Series 2020	Total
Premium on bonds	36,943	176,805		213,748
Refunding of bond	(36,943)	-	166,523	129,580
Current year amortization	-	(13,959)	(6,631)	(20,590)
	-	162,846	159,892	322,738

The deferred charge on refunding bonds, net of accumulated amortization, totaled \$307,806 at June 30, 2021. Amortization of \$24,327 is reflected in the Statement of Activities for the year ended June 30, 2021.

	Series 2012	Series 2020	Total
Deferred Charge on Refunding	283,729	48,404	332,133
Current Year Amortization	(22,400)	(1,927)	(24,327)
Total	261,329	46,477	307,806

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, 2021.

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, 2021, the District paid \$36,000 in principal and \$3,071 in interest.

A summary of changes in Maintenance Tax Note Obligations for the year ended June 30, 2021 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amounts Outstanding 7/1/2020</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 6/30/2021</u>
Maintenance Tax Notes, 2011	6.68%	500,000	257,000	-	36,000	221,000
			257,000	-	36,000	221,000

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Maintenance Tax Note Obligations requirements are as follows:

Maintenance Tax Note Obligations			
Direct Borrowing			
Year Ending June 30,	Principal	Interest	Total
2022	39,000	14,763	53,763
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	221,000	46,160	267,160

H. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Unlimited Tax Refunding Bonds, Series 2011					
Current Interest Bonds	2,485,000	-	2,315,000	170,000	170,000
Unlimited Tax Refunding Bonds, Series 2012					
Current Interest Bonds	4,410,000	-	105,000	4,305,000	105,000
Unlimited Tax Refunding Bonds, Series 2020					
Current Interest Bonds	-	2,150,000	-	2,150,000	30,000
Maintenance Tax Notes, 2011	257,000	-	36,000	221,000	39,000
Total General Obligations	7,152,000	2,150,000	2,456,000	6,846,000	344,000
Unamortized Premium					
Series 2011	36,943	-	36,943	-	-
Series 2012	176,805	-	13,959	162,846	-
Series 2020	-	166,523	6,631	159,892	-
Compensated Absences	21,750	5,100	-	26,850	-
Net Pension Liability	2,004,846	7,034	143,906	1,867,974	-
Net OPEB Liability	3,147,161	-	552,909	2,594,252	-
Subtotal	5,387,505	178,657	754,348	4,811,814	-
 Total Governmental Activities	12,539,505	2,328,657	3,210,348	11,657,814	344,000

I. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for future rental payments as of June 30, 2021, as follows:

Year Ending June 30,	Payments
2022	\$ 35,916
2023	23,944
Total Minimum Rentals	\$ 59,860

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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 2021, 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.texas.gov/TRS%20Documents/cafr2019.pdf, 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.

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

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the 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 Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for the fiscal years 2020 through 2025.

	Contribution Rates	
	2020	2021
Member (Employees)	7.70%	7.70%
Employer (District)	7.50%	7.50%
Non-Employer Contributing Entity (State)	7.50%	7.50%
Member Contributions	498,231	508,885
Employer Contributions	201,388	153,096
NECE On-Behalf Contributions	335,452	439,814

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

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

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- All public schools, charter school, and regional educational service centers must contribute 1.5% of the member's salary beginning in fiscal year 2020, gradually increasing to 2% in fiscal year 2025.

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

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-Term Expected Rate	7.25%
Municipal Bond Rate as of August 2020	2.33%. Source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in Projection Period (100) years	2119
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

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

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 pension plan investments of 7.25 percent. The projection of cash flows used to determine the single discount rate assumed that contributions from active members, employers and non-employer contribution 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.

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

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

<u>Asset Class</u>	<u>Target Allocation¹ %</u>	<u>Long-Term Expected Arithmetic Real Rate of Return²</u>	<u>Expected Contribution to Long-Term Portfolio Returns</u>
Global Equity			
USA	18.0%	3.9%	0.99%
Non-U.S. Development	13.0%	5.1%	0.92%
Emerging Markets	9.0%	5.6%	0.83%
Private Equity	14.0%	6.7%	1.41%
Stable Value			
Government Bonds	16.0%	-0.7%	-0.05%
Stable Value Hedge	5.0%	1.9%	0.11%
Real Return			
Real Estate	15.0%	4.6%	1.01%
Energy, Natural Reserves	6.0%	6.0%	0.42%
Risk Parity			
Risk Parity	8.0%	3.0%	0.30%
Leverage			
Cash	2.0%	-1.5%	-0.03%
Asset Allocation Leverage	-6.0%	-1.3%	0.08%
Inflation Expectation			2.00%
Volatility Drag³			-0.67%
Total	100.00%		7.33%

¹ Target allocations are based on the FY 2020 policy manual.

² Capital Asset Market Assumptions come from Aon Hewitt (as of 8/31/2020).

³ The volatility drag results from the conversion between arithmetic and geometric mean returns.

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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	\$ 2,880,382	\$ 1,867,974	\$ 1,045,414

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2021, Prairiland ISD reported a liability of \$1,867,974 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	\$ 1,867,974
State's Proportionate Share that is Associated with District	5,709,022
Total	\$ 7,576,996

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

At August 31, 2020 the employer's proportion of the collective net pension liability was 0.0034877617% which was an increase (decrease) of (0.0003689626%) from its proportion measured as of August 31, 2019.

Changes Since the Prior Actuarial Valuation -

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

For the year ended June 30, 2021, Prairiland School recognized pension expense of \$979,186 and revenue of \$686,669 for support provided by the State.

At June 30, 2021, 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:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Economic Experience	3,411	52,130
Changes in Actuarial Assumptions	433,436	184,294
Net Difference between projected and actual investment earnings	37,815	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	91,866	155,522
Total as of August 31, 2020 measurement date	566,528	391,946
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	129,263	-
Total as of June 30, 2021 fiscal year end	695,791	391,946

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

Year Ended June 30,	Pension Expense Amount
2022	\$ 91,673
2023	68,139
2024	62,255
2025	3,952
2026	(43,414)
Thereafter	(8,023)
Total	<u>\$ 174,582</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 that has 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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
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OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care’s fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/Pages/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.

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.

Contribution Rates

	<u>2020</u>	<u>2021</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	42,613	42,959
Employer Contributions	50,984	52,029
Measurement Year NECE On-behalf Contributions	62,756	69,700

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Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2019. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2020. The actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

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

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Discount Rate. A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of .30 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, 2020 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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

	1% Decrease in Discount Rate (1.33%)	Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
District's Proportionate Share of Net OPEB Liability	\$ 3,133,097	\$ 2,594,252	\$ 2,184,440

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2021 the District reported a liability of \$2,594,252 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	\$ 2,594,252
State's Proportionate Share that is Associated with District	<u>3,486,053</u>
Total	<u>\$ 6,080,305</u>

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

At August 31, 2020 the employer’s proportion of the collective Net OPEB Liability was 0.0068243726%, which was an increase (decrease) of 0.0001695245% from its proportion measured as of August 31, 2019.

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

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	1% Decrease	Current Healthcare Cost Trend Rate (8.5%)	1% Increase
District's Proportionate Share of Net OPEB Liability	\$ 2,119,172	\$ 2,594,252	\$ 3,226,992

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

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

Change of Benefit Terms Since the Prior Measurement Date – There were not changes in benefit terms since the prior measurement date.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Economic Experience	135,834	1,187,262
Changes in Actuarial Assumptions	160,011	712,395
Net Difference between projected and actual investment earnings	843	-
Changes in proportion and difference between the employer's contributions and	186,370	42,877
Total as of August 31, 2020 measurement date	483,058	1,942,534
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	43,568	-
Total as of June 30, 2021 fiscal year end	526,626	1,942,534

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
2022	\$ (246,372)
2023	(246,485)
2024	(246,550)
2025	(246,534)
2026	(177,240)
Thereafter	(296,295)
Total	<u>\$ (1,459,476)</u>

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

For the year ended June 30, 2021, the District recognized OPEB expense of \$(48,354) and revenue of \$(24,206) 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 \$32,654, \$27,417, and \$19,225, respectively.

N. Employee Health Care Coverage

During the year ended June 30, 2021, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$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.

O. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the granter agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the granter 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, 2021.

3. COVID-19 Pandemic

On March 13, 2020, Texas Governor Greg Abbott declared Texas in a state of disaster as a result of the COVID-19 pandemic. The Governor has issued proclamations renewing the disaster declarations for all Texas counties in each subsequent month effective through the date of this report. The pandemic will most probably have a significant effect on governmental and private entities. The extent of the effect cannot, at this time, be estimated or quantified.

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

<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 through March 5, 2020. 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.

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. In addition to the tax abatement, the local business has committed to pay supplemental payments to the district in the amount of \$100 per ADA. These companies paid a total of \$426,600 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>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Governmental Funds Total</u>
Property taxes & related income	\$ 3,194,165	\$ 380,074	\$ -	\$ 3,574,239
Investment income	30,828	7,038	62	37,928
Tuition & Fees	26,779	-	-	26,779
Interfund Transactions	19,178	-	-	19,178
Food service revenue	-	-	17,040	17,040
Athletics/Cocurricular	54,393	-	69,190	123,583
Other local and intermediate sources	16,123	-	4,340	20,463
	<u>\$ 3,341,466</u>	<u>\$ 387,112</u>	<u>\$ 90,632</u>	<u>\$ 3,819,210</u>

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

S. Prior Period Adjustment

During fiscal year 2021, the District adopted GASB Statement No. 84 for Fiduciary Activities. With GASB 84, the District evaluated all fiduciary funds to determine the proper classification of custodial funds. Adoption of GASB 84 requires a prior period adjustment to report the effect of GASB 84 retroactively. The amount of the prior period adjustment for activity funds reclassified to a Custodial Fund is reflected on the Statement of Changes in Fiduciary Net Position as \$110,911. The restated beginning net position is \$110,911.

T. Subsequent Events

Management has evaluated subsequent events through November 9, 2021, 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, 2021

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	\$ 2,859,412	\$ 3,109,412	\$ 3,341,466	\$ 232,054
5800 State Program Revenues	8,508,293	8,508,293	7,887,966	(620,327)
5900 Federal Program Revenues	700	700	119	(581)
5020 Total Revenues	11,368,405	11,618,405	11,229,551	(388,854)
EXPENDITURES:				
Current:				
0011 Instruction	6,241,555	6,358,554	5,215,836	1,142,718
0012 Instructional Resources and Media Services	147,175	147,175	122,066	25,109
0013 Curriculum and Instructional Staff Development	163,861	163,861	124,644	39,217
0023 School Leadership	822,451	822,451	819,298	3,153
0031 Guidance, Counseling, and Evaluation Services	152,317	154,317	142,375	11,942
0033 Health Services	93,925	151,925	80,975	70,950
0034 Student (Pupil) Transportation	489,636	489,636	398,613	91,023
0035 Food Services	15,600	15,600	12,552	3,048
0036 Extracurricular Activities	586,958	586,958	469,239	117,719
0041 General Administration	558,353	597,353	558,371	38,982
0051 Facilities Maintenance and Operations	1,143,459	1,646,018	1,504,309	141,709
0052 Security and Monitoring Services	18,900	18,900	1,813	17,087
0053 Data Processing Services	186,966	206,966	135,825	71,141
Debt Service:				
0071 Principal on Long-Term Debt	36,000	36,000	36,000	-
0072 Interest on Long-Term Debt	5,000	5,000	3,071	1,929
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	609,000	626,000	625,709	291
0099 Other Intergovernmental Charges	46,000	46,000	45,960	40
6030 Total Expenditures	11,317,156	12,072,714	10,296,656	1,776,058
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	51,249	(454,309)	932,895	1,387,204
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(51,249)	(921,249)	(845,000)	76,249
1200 Net Change in Fund Balances	-	(1,375,558)	87,895	1,463,453
0100 Fund Balance - July 1 (Beginning)	9,209,850	9,209,850	9,209,850	-
3000 Fund Balance - June 30 (Ending)	\$ 9,209,850	\$ 7,834,292	\$ 9,297,745	\$ 1,463,453

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, 2021

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018
District's Proportion of the Net Pension Liability (Asset)	0.003487762%	0.003856724%	0.003845376%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,867,974	\$ 2,004,846	\$ 2,116,588
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	5,709,022	4,982,277	5,559,655
Total	<u>\$ 7,576,996</u>	<u>\$ 6,987,123</u>	<u>\$ 7,676,243</u>
District's Covered Payroll	\$ 6,580,433	\$ 5,882,021	\$ 5,836,831
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	28.39%	34.08%	36.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.54%	75.24%	73.74%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 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.

<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.00388312%	0.003970222%	0.0041902%	0.0018565%
\$ 1,241,612	\$ 1,500,288	\$ 1,481,180	\$ 495,897
3,338,890	4,128,195	3,996,795	3,338,835
<u>\$ 4,580,502</u>	<u>\$ 5,628,483</u>	<u>\$ 5,477,975</u>	<u>\$ 3,834,732</u>
\$ 5,717,791	\$ 5,722,339	\$ 5,579,402	\$ 5,294,601
21.71%	26.22%	26.55%	9.37%
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 2021

	2021	2020	2019
Contractually Required Contribution	\$ 153,096	\$ 201,388	\$ 132,779
Contribution in Relation to the Contractually Required Contribution	(153,096)	(201,388)	(132,779)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 6,609,783	\$ 6,470,531	\$ 5,826,738
Contributions as a Percentage of Covered Payroll	2.32%	3.11%	2.27%

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

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

	2018	2017	2016	2015
\$	130,015	\$ 127,497	\$ 124,961	\$ 110,911
	(130,015)	(127,497)	(124,961)	(110,911)
\$	-	\$ -	\$ -	\$ -
\$	5,796,356	\$ 5,759,199	\$ 5,653,891	\$ 5,556,141
	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, 2021

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.006824373%	0.006654848%	0.006743281%	\$ 0.006520663%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 2,594,252	\$ 3,147,161	\$ 3,366,982	\$ 2,835,592
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	3,486,053	4,181,871	5,067,301	\$ 4,557,180
Total	<u>\$ 6,080,305</u>	<u>\$ 7,329,032</u>	<u>\$ 8,434,283</u>	<u>\$ 7,392,772</u>
District's Covered Payroll	\$ 6,580,433	\$ 5,882,021	\$ 5,836,831	\$ 5,717,791
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	39.42%	53.50%	57.79%	\$ 49.59%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.99%	2.66%	1.57%	\$ 0.91%

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

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

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

	2021	2020	2019	2018
Contractually Required Contribution	\$ 52,029	\$ 50,984	\$ 46,886	\$ 45,743
Contribution in Relation to the Contractually Required Contribution	(52,029)	(50,984)	46,886	(45,743)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 6,609,783	\$ 6,470,531	\$ 5,826,738	\$ 5,796,356
Contributions as a Percentage of Covered Payroll	0.79%	0.79%	0.80%	0.78%

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.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021**

A. Notes to Schedules for the TRS Pension

Changes of Benefit Terms.

In May 2019, the 86th Texas legislature approved the TRS Pension Reform Bill (SB12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. The increases immediately made the pension fund actuarially sound and the legislature approved funding for a 13th check.

All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever was less.

Changes of Assumptions.

There were no changes in benefit terms 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 discount rate changed from 2.64 percent as of August 31, 2019 to 2.33 percent, as of August 31, 2020. This change increased the Total OPEB Liability.
- The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. This change lowered the Total OPEB Liability.
- The ultimate health care trend assumption was lowered from 4.50 percent to 4.25 percent as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the Total OPEB Liability.

COMBINING SCHEDULES

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2021

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
ASSETS			
1110 Cash and Cash Equivalents	\$ (37,661)	\$ (78,279)	\$ (10,223)
1120 Investments - Current	-	-	-
1220 Property Taxes - Delinquent	-	-	-
1230 Allowance for Uncollectible Taxes	-	-	-
1240 Due from Other Governments	37,650	34,821	6,388
1260 Due from Other Funds	12,942	83,843	3,835
1300 Inventories	-	10,354	-
1000 Total Assets	<u>\$ 12,931</u>	<u>\$ 50,739</u>	<u>\$ -</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ 319	\$ -
2160 Accrued Wages Payable	11,336	35,051	-
2170 Due to Other Funds	-	-	-
2180 Due to Other Governments	-	-	-
2200 Accrued Expenditures	1,595	4,967	-
2300 Unearned Revenue	-	9,659	-
2000 Total Liabilities	<u>12,931</u>	<u>49,996</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	743	-
3480 Retirement of Long-Term Debt	-	-	-
Committed Fund Balance:			
3510 Construction	-	-	-
3545 Other Committed Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>743</u>	<u>-</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,931</u>	<u>\$ 50,739</u>	<u>\$ -</u>

EXHIBIT H-1 (Cont'd)

266 ESSER -School Emergency Relief I	276 Title I - SIP Academy Grant	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
\$ 148,477	\$ (7,655)	\$ (25)	\$ 11,523	\$ -	\$ 101,301	\$ 127,458	\$ 437,075
-	-	-	-	-	-	-	1,250
-	-	-	-	-	-	-	58,887
-	-	-	-	-	-	-	(15,986)
-	7,655	5,600	-	-	-	92,114	997
-	-	25	-	-	-	100,645	-
-	-	-	-	-	-	10,354	-
<u>\$ 148,477</u>	<u>\$ -</u>	<u>\$ 5,600</u>	<u>\$ 11,523</u>	<u>\$ -</u>	<u>\$ 101,301</u>	<u>\$ 330,571</u>	<u>\$ 482,223</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319	\$ -
-	-	-	-	-	-	46,387	-
148,477	-	5,600	-	-	-	154,077	-
-	-	-	-	-	-	-	107,325
-	-	-	-	-	-	6,562	-
-	-	-	11,523	-	-	21,182	-
<u>148,477</u>	<u>-</u>	<u>5,600</u>	<u>11,523</u>	<u>-</u>	<u>-</u>	<u>228,527</u>	<u>107,325</u>
-	-	-	-	-	-	-	40,903
-	-	-	-	-	-	-	40,903
-	-	-	-	-	-	743	-
-	-	-	-	-	-	-	333,995
-	-	-	-	-	-	-	-
-	-	-	-	-	101,301	101,301	-
-	-	-	-	-	101,301	102,044	333,995
<u>\$ 148,477</u>	<u>\$ -</u>	<u>\$ 5,600</u>	<u>\$ 11,523</u>	<u>\$ -</u>	<u>\$ 101,301</u>	<u>\$ 330,571</u>	<u>\$ 482,223</u>

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2021

Data Control Codes	699 Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ (70,374)	\$ 494,159
1120 Investments - Current	-	1,250
1220 Property Taxes - Delinquent	-	58,887
1230 Allowance for Uncollectible Taxes	-	(15,986)
1240 Due from Other Governments	-	93,111
1260 Due from Other Funds	785,000	885,645
1300 Inventories	-	10,354
1000 Total Assets	<u>\$ 714,626</u>	<u>\$ 1,527,420</u>
LIABILITIES		
2110 Accounts Payable	\$ 92,449	\$ 92,768
2160 Accrued Wages Payable	-	46,387
2170 Due to Other Funds	-	154,077
2180 Due to Other Governments	-	107,325
2200 Accrued Expenditures	-	6,562
2300 Unearned Revenue	-	21,182
2000 Total Liabilities	<u>92,449</u>	<u>428,301</u>
DEFERRED INFLOWS OF RESOURCES		
2601 Unavailable Revenue - Property Taxes	-	40,903
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>40,903</u>
FUND BALANCES		
Restricted Fund Balance:		
3450 Federal or State Funds Grant Restriction	-	743
3480 Retirement of Long-Term Debt	-	333,995
Committed Fund Balance:		
3510 Construction	622,177	622,177
3545 Other Committed Fund Balance	-	101,301
3000 Total Fund Balances	<u>622,177</u>	<u>1,058,216</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 714,626</u>	<u>\$ 1,527,420</u>

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2021

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ 21,442	\$ -
5800 State Program Revenues	-	2,118	-
5900 Federal Program Revenues	123,051	412,200	25,961
5020 Total Revenues	<u>123,051</u>	<u>435,760</u>	<u>25,961</u>
EXPENDITURES:			
Current:			
0011 Instruction	123,051	-	25,961
0012 Instructional Resources and Media Services	-	-	-
0023 School Leadership	-	-	-
0033 Health Services	-	-	-
0035 Food Services	-	495,017	-
0036 Extracurricular Activities	-	-	-
0051 Facilities Maintenance and Operations	-	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	-	-
0072 Interest on Long-Term Debt	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
6030 Total Expenditures	<u>123,051</u>	<u>495,017</u>	<u>25,961</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(59,257)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued	-	-	-
7915 Transfers In	-	60,000	-
7916 Premium or Discount on Issuance of Bonds	-	-	-
8949 Other (Uses)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>60,000</u>	<u>-</u>
1200 Net Change in Fund Balance	-	743	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ 743</u>	<u>\$ -</u>

266 ESSER -School Emergency Relief I	276 Title I - SIP Academy Grant	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,190	\$ 90,632	\$ 387,112
-	-	-	127,099	19,188	-	148,405	43,335
224,660	15,500	11,480	-	-	-	812,852	-
224,660	15,500	11,480	127,099	19,188	69,190	1,051,889	430,447
180,522	15,500	11,480	137,879	-	376	494,769	-
-	-	-	-	-	1,638	1,638	-
-	-	-	-	-	43,042	43,042	-
44,138	-	-	-	-	-	44,138	-
-	-	-	-	-	-	495,017	-
-	-	-	-	-	27,593	27,593	-
-	-	-	-	19,188	-	19,188	-
-	-	-	-	-	-	-	270,000
-	-	-	-	-	-	-	223,635
-	-	-	-	-	-	-	82,426
-	-	-	-	-	-	-	-
224,660	15,500	11,480	137,879	19,188	72,649	1,125,385	576,061
-	-	-	(10,780)	-	(3,459)	(73,496)	(145,614)
-	-	-	-	-	-	-	2,150,000
-	-	-	-	-	-	60,000	-
-	-	-	-	-	-	-	166,523
-	-	-	-	-	-	-	(2,235,347)
-	-	-	-	-	-	60,000	81,176
-	-	-	(10,780)	-	(3,459)	(13,496)	(64,438)
-	-	-	10,780	-	104,760	115,540	398,433
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,301	\$ 102,044	\$ 333,995

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2021

Data Control Codes	699 Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ -	\$ 477,744
5800 State Program Revenues	-	191,740
5900 Federal Program Revenues	-	812,852
5020 Total Revenues	-	1,482,336
EXPENDITURES:		
Current:		
0011 Instruction	-	494,769
0012 Instructional Resources and Media Services	-	1,638
0023 School Leadership	-	43,042
0033 Health Services	-	44,138
0035 Food Services	-	495,017
0036 Extracurricular Activities	-	27,593
0051 Facilities Maintenance and Operations	-	19,188
Debt Service:		
0071 Principal on Long-Term Debt	-	270,000
0072 Interest on Long-Term Debt	-	223,635
0073 Bond Issuance Cost and Fees	-	82,426
Capital Outlay:		
0081 Facilities Acquisition and Construction	162,823	162,823
6030 Total Expenditures	162,823	1,864,269
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(162,823)	(381,933)
OTHER FINANCING SOURCES (USES):		
7911 Capital Related Debt Issued	-	2,150,000
7915 Transfers In	785,000	845,000
7916 Premium or Discount on Issuance of Bonds	-	166,523
8949 Other (Uses)	-	(2,235,347)
7080 Total Other Financing Sources (Uses)	785,000	926,176
1200 Net Change in Fund Balance	622,177	544,243
0100 Fund Balance - July 1 (Beginning)	-	513,973
3000 Fund Balance - June 30 (Ending)	\$ 622,177	\$ 1,058,216

REQUIRED T.E.A. SCHEDULES

PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED JUNE 30, 2021

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2012 and prior years	Various	Various	\$ 187,981,932
2013	1.040000	0.129500	193,918,427
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 (School year under audit)	0.966400	0.129500	282,429,692
1000 TOTALS			

(10) Beginning Balance 7/1/2020	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2021
\$ 117,075	\$ -	\$ 7,512	\$ 1,024	\$ (3,162)	\$ 105,377
16,050	-	2,972	367	(406)	12,305
18,054	-	3,545	438	(9)	14,062
26,955	-	5,239	647	-	21,069
34,576	-	6,799	840	(165)	26,772
36,198	-	8,112	1,003	(7)	27,076
40,395	-	10,742	1,328	-	28,325
51,262	-	11,520	1,424	36,788	75,106
101,563	-	46,715	6,370	26,995	75,473
-	3,095,147	2,634,992	355,918	17,979	122,216
<u>\$ 442,128</u>	<u>\$ 3,095,147</u>	<u>\$ 2,738,148</u>	<u>\$ 369,359</u>	<u>\$ 78,013</u>	<u>\$ 507,781</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, 2021

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	\$ 126,050	\$ 126,050	\$ 21,442	\$ (104,608)
5800 State Program Revenues	2,600	2,600	2,118	(482)
5900 Federal Program Revenues	385,133	385,133	412,200	27,067
5020 Total Revenues	513,783	513,783	435,760	(78,023)
EXPENDITURES:				
Current:				
0035 Food Services	565,032	565,032	495,017	70,015
6030 Total Expenditures	565,032	565,032	495,017	70,015
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,249)	(51,249)	(59,257)	(8,008)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	51,249	136,249	60,000	(76,249)
1200 Net Change in Fund Balances	-	85,000	743	(84,257)
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ 85,000	\$ 743	\$ (84,257)

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, 2021

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	\$ 373,846	\$ 373,846	\$ 387,112	\$ 13,266
5800 State Program Revenues	122,110	122,110	43,335	(78,775)
5020 Total Revenues	<u>495,956</u>	<u>495,956</u>	<u>430,447</u>	<u>(65,509)</u>
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	270,000	270,000	270,000	-
0072 Interest on Long-Term Debt	256,475	256,475	223,635	32,840
0073 Bond Issuance Cost and Fees	2,500	82,426	82,426	-
6030 Total Expenditures	<u>528,975</u>	<u>608,901</u>	<u>576,061</u>	<u>32,840</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(33,019)</u>	<u>(112,945)</u>	<u>(145,614)</u>	<u>(32,669)</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued	-	2,150,000	2,150,000	-
7916 Premium or Discount on Issuance of Bonds	-	166,523	166,523	-
8949 Other (Uses)	-	(2,235,347)	(2,235,347)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>81,176</u>	<u>81,176</u>	<u>-</u>
1200 Net Change in Fund Balances	(33,019)	(31,769)	(64,438)	(32,669)
0100 Fund Balance - July 1 (Beginning)	<u>398,433</u>	<u>398,433</u>	<u>398,433</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 365,414</u>	<u>\$ 366,664</u>	<u>\$ 333,995</u>	<u>\$ (32,669)</u>

STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES

Prairiland Independent School District

Fiscal Year 2021

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.	848,837
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	590,509

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.	17,042
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35)	32,062

**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, Texas 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2021.

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.

Wilf & Henderson, P.C.

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

November 9, 2021



**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

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, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Prairiland Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prairiland Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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, 2021.

Report on Internal Control Over Compliance

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

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

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

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



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

November 9, 2021

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

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:

ESSER School Emergency Relief I	CFDA# 84.425D
ESSER School Emergency Relief II	CFDA# 84.425D
- 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, 2021**

There were no prior year audit findings or questioned costs.

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2021**

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, 2021

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	21-610101139912	\$ 123,051
ESEA, Title II, Part A, Teacher Principal Training	84.367A	21-694501139912	25,961
Title I SIP Academy Grant	84.377A	21-1760740139912	15,500
ESSER School Emergency Relief I	84.425D	20-521001139912	148,477
ESSER School Emergency Relief I	84.425D	21-521001139912	76,183
ESSER School Emergency Relief II	84.425D	21-528001139912	572,840
Total CFDA Number 84.425D			797,500
Title IV, Part A, Subpart 1	84.424A	21-680101139912	11,480
Total Passed Through State Department of Education			973,492
TOTAL U.S. DEPARTMENT OF EDUCATION			973,492
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	N/A	119
Total Passed Through Texas Dept of Human Services			119
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			119
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	N/A	97,675
*National School Lunch Program - Cash Assistance	10.555	N/A	280,992
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	33,533
Total CFDA Number 10.555			314,525
Total Child Nutrition Cluster			412,200
Total Passed Through the State Department of Agriculture			412,200
TOTAL U.S. DEPARTMENT OF AGRICULTURE			412,200
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,385,811

*Clustered Programs as required by Compliance Supplement 2021

**PRAIRILAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

- 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 2021

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If there was a warrant hold not cleared in 30 days, then not timely.)	Yes
SF4	Was the school district issued a warrant hold? (Yes even if cleared within 30 days.)	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local 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

FORMS OF CO-BOND COUNSEL AND SPECIAL TAX COUNSEL'S OPINION

[Date]

Re: Prairiland Independent School District Unlimited Tax School Building Bonds, Series 2022

To Whom it May Concern:

With regard to the authorization and issuance of the "Prairiland Independent School District Unlimited Tax School Building Bonds, Series 2022," dated September 15, 2022, in the aggregate principal amount of [\$_____] (the "Bonds"), we have examined into their issuance by the Prairiland Independent School District (the "District") solely to express legal opinions as to the validity of the Bonds and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

The Bonds are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof for any one stated maturity. The Bonds mature on the dates in each of the years specified in the order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the "Bond Order"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

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

Based on our examination, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity

[Date]

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We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

Our opinions are based upon on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

Leon | Alcala, PLLC

[DATE]

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IN REGARD to the authorization and issuance of the “Prairiland Independent School District Unlimited Tax School Building Bonds, Series 2022” (the *Bonds*), dated September 15, 2022, in the aggregate original principal amount of \$____, we have reviewed the legality and validity of the issuance thereof by the Prairiland Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Legal Opinion of Norton Rose Fulbright US LLP, Houston, Texas, in connection with the authorization and issuance of “PRAIRILAND INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022”

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP