

**OFFICIAL STATEMENT**  
**Dated March 23, 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) (See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “OTHER PERTINENT INFORMATION – Municipal Bond Rating” herein)

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



**\$37,530,000**  
**VERNON INDEPENDENT SCHOOL DISTRICT**  
**(WILBARGER & FOARD COUNTIES, TEXAS)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

**Dated Date: April 15, 2022**  
**Interest to Accrue from Delivery Date**

**Due: as shown on page ii**

**AUTHORITY FOR ISSUANCE** ... The Vernon Independent School District Unlimited Tax School Building Bonds, Series 2022 (the “Bonds”) are direct and voted obligations of the Vernon Independent School District (the “District”), and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on November 2, 2021 (the “Election”), and an order authorizing the issuance of the Bonds (the “Bond Order”), adopted by the Board of Trustees (the “Board”) of the District on March 23, 2022. See “THE BONDS – Authority for Issuance” herein.

**PAYMENT TERMS** ... Interest on the Bonds will accrue from their date of initial delivery to the Underwriters (defined below), 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, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

**PURPOSE** ... Proceeds from the sale of the Bonds will be used (i) for constructing, renovating, improving, expanding and equipping school facilities in the District consisting of a new elementary campus and renovations and additions to the high school campus (ii) and to pay for the costs of issuing the Bonds. See “PLAN OF FINANCING – Sources and Uses of Funds” herein.

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.

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**For Stated Maturities, Principal Amounts, Interest Rates, Initial Yields, CUSIP Numbers, and Redemption Provisions for the Bonds, see page ii herein**

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*The Bonds are offered for delivery when, as and if issued and received by the underwriters below (the “Underwriters”) and are subject to the approving opinion of the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. See “LEGAL MATTERS”; “APPENDIX C – FORM OF BOND COUNSEL’S OPINION” hereto. Certain matters will be passed upon for the Underwriters by their co-counsel, Sara Leon & Associates, PLLC, Austin, Texas, and Norton Rose Fulbright US LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through the services of DTC on or about April 26, 2022 (the “Delivery Date”).*

**STEPHENS INC.** **FHN FINANCIAL CAPITAL MARKETS** **OPPENHEIMER & CO.**

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

**\$37,530,000  
VERNON INDEPENDENT SCHOOL DISTRICT  
(WILBARGER & FOARD COUNTIES, TEXAS)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

**CUSIP No. Prefix 924682 <sup>(1)</sup>**

**\$22,210,000 Serial Bonds**

<b>Maturity Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. <sup>(1)</sup></b>
<b>(2/15)</b>	<b>(\$)</b>	<b>(%)</b>	<b>(%)</b>	<b>Suffix</b>
2023	495,000	5.000	1.380	HS9
2024	990,000	5.000	1.630	HT7
2025	1,015,000	5.000	1.780	HU4
2026	1,050,000	5.000	1.880	HV2
2027	1,050,000	5.000	1.990	HW0
2028	1,060,000	5.000	2.090	HX8
2029	1,070,000	5.000	2.160	HY6
2030	1,085,000	5.000	2.250	HZ3
2031	1,105,000	5.000	2.300	JA6
2032	1,125,000	5.000	2.370 <sup>(2)</sup>	JB4
2033	1,135,000	5.000	2.450 <sup>(2)</sup>	JC2
2034	1,175,000	5.000	2.470 <sup>(2)</sup>	JD0
2035	1,220,000	5.000	2.500 <sup>(2)</sup>	JE8
2036	1,220,000	4.000	2.770 <sup>(2)</sup>	JF5
2037	1,265,000	4.000	2.790 <sup>(2)</sup>	JG3
2038	1,210,000	4.000	2.810 <sup>(2)</sup>	JH1
2039	1,260,000	4.000	2.840 <sup>(2)</sup>	JJ7
2040	1,195,000	4.000	2.860 <sup>(2)</sup>	JK4
2041	1,245,000	4.000	2.880 <sup>(2)</sup>	JL2
2042	1,240,000	4.000	2.900 <sup>(2)</sup>	JM0

**\$15,320,000 Term Bonds**

**\$4,025,000 4.000% Term Bonds due February 15, 2045, Priced to Yield 2.980%<sup>(2)</sup> CUSIP No.<sup>(1)</sup> Suffix JN8**

**\$11,295,000 3.500% Term Bonds due February 15, 2052, Priced to Yield 3.600% CUSIP No.<sup>(1)</sup> Suffix JP3**

(Interest to accrue from the Delivery Date)

*Optional Redemption Provisions.* The District reserves the right to redeem the Bonds maturing on and after February 15, 2032, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2031 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2045 and February 15, 2052 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity as described herein. See "The Bonds – Redemption Provisions of the Bonds".

<sup>(1)</sup> 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 S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Priced to first optional redemption date of February 15, 2031.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**1713 Wilbarger Street**  
**Vernon, Texas 76384**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Emory Byars	President	May 2024	Farmer/Rancher
Chris Lehman	Vice President	May 2023	Attorney
Tom Scott	Secretary	May 2022	Retired
Sjohonton Fanner	Member	May 2022	Student Advisor
Kevin Young	Member	May 2022	Business Owner
Carrie Hawkins	Member	May 2023	HR/PR Director
Patrick Parmer	Member	May 2024	Funeral Home Director

**ADMINISTRATION – FINANCE CONNECTED**

<u>Name</u>	<u>Position</u>
Jeff Byrd	Superintendent of Schools
Clay Montgomery	Interim Business Manager

**CONSULTANTS AND ADVISORS**

Auditors	Edgin, Parkman, Fleming & Fleming, PC, Wichita Falls, Texas
Bond Counsel	McCall, Parkhurst & Horton L.L.P., Dallas, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

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## USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesperson, 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, which includes the cover page and appendices hereto, does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information and such information is not to be construed as a representation by the Underwriters.

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

None of the District, the Municipal Advisor, or the Underwriters 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 IS A CRIMINAL OFFENSE.

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The cover page hereof and 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.

<b>THE DISTRICT .....</b>	Vernon Independent School District (the "District") is a political subdivision located in Wilbarger and Foard Counties, Texas. The District is located in the north central portion of the state, 50 miles northwest of Wichita Falls, Texas and 170 miles southeast of Amarillo, Texas and comprising approximately 564.49 square miles. (see "INTRODUCTION – Description of the District").
<b>AUTHORITY FOR ISSUANCE</b>	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, the Election, and the Bond Order approved by the Board on March 23, 2022. (see "THE BONDS - Authority for Issuance").
<b>THE BONDS .....</b>	The Bonds are being issued in the principal amounts and mature on the dates set forth on page ii hereof. The Bonds bear interest from the Delivery Date (identified below), at the rates per annum set forth on page ii hereof, which interest is payable each February 15 and August 15, commencing February 15, 2023, until maturity or prior redemption. See "THE BONDS—Description of the Bonds" herein.
<b>DATED DATE .....</b>	April 15, 2022.
<b>REDEMPTION .....</b>	The District reserves the option to redeem the Bonds maturing on and after February 15, 2032, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2031, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2045 and February 15, 2052 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.
<b>SECURITY FOR THE BONDS</b>	The Bonds constitute direct and voted 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.
<b>TAX MATTERS .....</b>	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX C – Form of Bond Counsel's Opinion."
<b>PERMANENT SCHOOL FUND GUARANTEE .....</b>	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.
<b>PAYING AGENT/REGISTRAR</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
<b>MUNICIPAL BOND RATING ...</b>	The Bonds are 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.
<b>USE OF PROCEEDS .....</b>	Proceeds from the sale of the Bonds will be used (i) for constructing, renovating, improving, expanding and equipping school facilities in the District consisting of a new elementary campus and renovations and additions to the high school campus (ii) and to pay for the costs of issuing the Bonds. (see "PLAN OF FINANCING - Purpose" and "—Sources and Uses of Funds").
<b>PAYMENT RECORD .....</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>DELIVERY DATE .....</b>	When issued, anticipated to occur on or about April 26, 2022.
<b>LEGALITY .....</b>	The Bonds are subject to the delivery of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, and the opinion as to the legality of the Bonds by the Attorney General of the State of Texas (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" herein).

## **OFFICIAL STATEMENT**

**Relating to**

**\$37,530,000**

**VERNON INDEPENDENT SCHOOL DISTRICT  
(WILBARGER & FOARD COUNTIES, TEXAS)  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

### **INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$37,530,000 Vernon 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), Texas Education Code, as amended, an election held in the District on November 2, 2021 (the "Election"), and the bond order (the "Bond Order") adopted by the District's Board of Trustees on March 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. Copies of such documents may be obtained by writing the Vernon Independent School District, 1713 Wilbarger Street, Vernon, Texas 76384, Attention: Superintendent and, during the offering period from the District's Municipal Advisor, Live Oak Public Finance, LLC, 1515 W. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, Attention: John Blackburn, 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, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314 and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE" for a description of the District's undertaking to provide certain information on a continuing basis.

### **Description of the District**

The District is a political subdivision of the State located in Wilbarger and Foard Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who 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. Support services are supplied by consultants and advisors. The District is located in the north central portion of the state, 50 miles northwest of Wichita Falls and 170 miles southeast of Amarillo, Texas and comprising approximately 564.49 square miles.

### **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 the State of Texas ("the State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to

COVID-19 preparedness and mitigation. Under executive orders in effect as of the date of this 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 activities.

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 the additional hold harmless periods or if students do not take part in the instruction options made available by the District.

The Texas Education Agency announced on August 5, 2021 that a school district has the authority to provide remote instruction to a student if the school district meets certain state and federal requirements. Students receiving remote instruction are considered enrolled, but do not meet the requirements for ADA funding.

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 and its ratings.

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 but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. 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 required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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 - Infectious Disease Outbreak".

## **PLAN OF FINANCING**

### **Purpose**

The Bonds are being issued (i) for constructing, renovating, improving, expanding and equipping school facilities in the District consisting of a new elementary campus and renovations and additions to the high school campus (ii) and to pay 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:

### Sources of Funds:

Par Amount of Bonds	\$37,530,000.00
Net Reoffering Premium on the Bonds	3,056,643.85
<b>TOTAL SOURCES</b>	<b>\$40,586,643.85</b>

### Uses of Funds:

Deposit to Construction Fund	\$40,000,000.00
Deposit to Capitalized Interest Fund	150,000.00
Costs of Issuance	215,625.79
Deposit to Interest and Sinking Fund	17.06
Underwriters' Discount	221,001.00
<b>TOTAL USES</b>	<b>\$40,586,643.85</b>

## THE BONDS

### Description of the Bonds

The Bonds are dated April 15, 2022 and mature on February 15 in each of the years and in the amounts set forth on page ii hereof. Interest on the Bonds will accrue from April 26, 2022 (the Delivery Date), and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2023 until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

### Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State particularly Texas Education Code, Sections 45.001 and 45.003(b)(1), as amended, the Election, and the Bond Order.

### Use of Proceeds

The proceeds of the Bonds (which includes premium allocation) represents the total amount of voted authorization approved at the Election. Following the issuance of the Bonds, the District will have no authorization remaining for future bonds. See "Table 8 – Authorized but Unissued Unlimited Tax Bonds" in APPENDIX A hereto.

A summary of the bonds authorized at said Election is as follows:

*[Remainder of page intentionally left blank]*

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
For constructing, renovating, improving, expanding and equipping school facilities in the District consisting of a new elementary campus and renovations and additions to the high school campus	\$40,000,000	\$0	\$40,000,000 (\$37,530,000 in principal plus \$2,470,000 in premium allocated to the Bonds)	\$0

### Security and Source of Payment

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

### 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.

### Redemption Provisions of the Bonds

*Optional Redemption.* The District reserves the option to redeem the Bonds maturing on and after February 15, 2032, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2031, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

*Mandatory Redemption.* The Bonds maturing on February 15, 2045 and February 15, 2052 (the "Term Bonds") shall be subject to mandatory sinking fund redemption in accordance with the provisions of the Order, on February 15 in each of the years and in the amounts set forth below:

<b>\$4,025,000 Term Bond Due February 15, 2045</b>		<b>\$11,295,000 Term Bond Due February 15, 2052</b>	
Mandatory Redemption		Mandatory Redemption	
Date (2/15)	Principal Amount (\$)	Date (2/15)	Principal Amount (\$)
2043	1,290,000	2046	1,450,000
2044	1,340,000	2047	1,500,000
2045*	1,395,000	2048	1,555,000
		2049	1,610,000
		2050	1,665,000
		2051	1,725,000
		2052*	1,790,000

\* Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on

the next following February 15 from money set aside for that purpose in the Interest and Sinking Fund maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bond of such Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional

### **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.

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

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

### **Defeasance**

The Bond Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such

defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Bond Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

### **Amendments to Bond Order**

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

The Bond Order further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Bond Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or interest or redemption premium, if any, on outstanding Bonds or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Bond Order for further provisions relating to the amendment thereof.

### **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, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Bond Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On

June 30, 2006, 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are 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 delivery of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, and the opinion as to the legality of the Bonds by the Attorney General of the State of Texas.

### **Delivery**

When issued; anticipated to occur on or about April 26, 2022.

### **Future Issues**

After the issuance of the Bonds, the District will have no remaining voted authorization from the election. See "Table 8 – Authorized but Unissued Unlimited Tax 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, NA, Dallas, Texas. The Bond Order provides for the District's right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **Record Date for Interest Payment**

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date.

by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

## **Registration, Transferability and Exchange**

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

## **Limitation on Transfer of Bonds**

Neither the District nor the Paying Agent/Registrar are required (i) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

## **BOOK-ENTRY-ONLY SYSTEM**

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

*The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption 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 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](http://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 none of the District, the Municipal Advisor, or the Underwriters 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 has been provided by the TEA and is not guaranteed as to accuracy or completeness by, and should not be construed as a representation by, the District.*

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

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

During the 87th Regular Session of the Texas Legislature (the "87<sup>th</sup> 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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://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](http://www.sec.gov/edgar.shtml). A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "Management Transition to the PSF Corporation" for ongoing changes in the management structure of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

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

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

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

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

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund

to both (i) 6% of the average of the market value of the Fund, excluding real property, on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

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

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

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

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

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

Texas law assigns to the SLB the ability to control of the Fund's land and mineral rights and make investments in real assets. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner. The SLB manages the proceeds of the land and mineral rights that are 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. The interim chief executive officer will report to the Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the Board but are subject to approval by the SBOE.

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

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

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

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

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

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

### **The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a 'total-return-based' formula instead of the 'current-income-based' formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the

market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

#### **Annual Distributions to the Available School Fund<sup>1</sup>**

<b><u>Fiscal Year Ending</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>
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 <sup>2</sup>
Per Student Distribution	\$221	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341

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

<sup>2</sup> 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 Rate<sup>1</sup></u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

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

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

### **Asset Allocation of Fund Portfolios**

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

The most recent asset allocation of the PSF(SBOE), approved by the SBOE in July 2020, is set forth below, along with the current asset allocations of the PSF(SLB) and the asset allocation of the Liquid Account (the Liquid Account asset allocation was most recently revised in November 2021). The next scheduled review of the PSF(SBOE) asset allocation is June 2022. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could affect the responsibility for review of the asset allocation and the timing of asset allocation review, as well as elimination of the Liquid Account.

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## PSF Strategic Asset Allocations

	<b>PSF Total</b>	<b>PSF(SBOE)</b>	<b>PSF(SLB)</b>	<b>Liquid Account</b>
<b>Equity Total</b>	47%	52%	0%	60%
<b>Public Equity Total</b>	34%	37%	0%	60%
Large Cap US Equity	13%	14%	0%	30%
Small/Mid Cap US Equity	5%	6%	0%	7%
International Equities	13%	14%	0%	23%
Emerging Markets Equity	2%	3%	0%	0%
Private Equity	13%	15%	0%	0%
<b>Fixed Income Total</b>	27%	25%	0%	38%
<b>Core Bonds</b>	11%	12%	0%	10%
High Yield	2%	3%	0%	0%
Emerging Markets Debt	6%	7%	0%	0%
Treasuries	2%	3%	0%	0%
TIPS	3%	0%	0%	5%
Short Duration	2%	0%	0%	23%
<b>Alternative Investments Total</b>	25%	22%	100%	0%
<b>Absolute Return</b>	6%	7%	0%	0%
Real Estate	12%	11%	33%	0%
Real Return	1%	4%	0%	0%
Energy	3%	0%	35%	0%
Infrastructure	3%	0%	32%	0%
<b>Emerging Manager Program</b>	0%	1%	0%	0%
<b>Cash</b>	2%	0%	0%	2%

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

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

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## Comparative Investment Schedule - PSF(SBOE)<sup>1</sup>

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>
<b>EQUITY</b>				
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>
<b>TOTAL EQUITY</b>	<b>16,878.1</b>	<b>13,493.0</b>	<b>3,385.1</b>	<b>25.1%</b>
<b>FIXED INCOME</b>				
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	<u>2,683.7</u>	<u>2,450.7</u>	<u>233.0</u>	<u>9.5%</u>
<b>TOTAL FIXED INCOME</b>	<b>8,780.1</b>	<b>7,602.0</b>	<b>1,178.1</b>	<b>15.5%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
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>
<b>TOT ALT INVESTMENTS</b>	<b>16,652.1</b>	<b>14,593.1</b>	<b>2,059.0</b>	<b>14.1%</b>
<b>UNALLOCATED CASH</b>	<b><u>262.9</u></b>	<b><u>122.9</u></b>	<b><u>140.0</u></b>	<b><u>113.9%</u></b>
<b>TOTAL PSF(SBOE) INVESTMENTS</b>	<b>\$ 42,573.2</b>	<b>\$ 35,811.0</b>	<b>\$ 6,762.2</b>	<b>18.9%</b>

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

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

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously included in the PSF valuation but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the Liquid Account and that policy was revised in November 2021 (the current allocation is as shown in the table "PSF Strategic Asset Allocations" above). As so amended, the Liquid Account asset allocation is expected to be fully implemented in the first calendar quarter of calendar year 2022. See "Management Transition to the PSF Corporation" for a discussion of planned changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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

## Liquid Account Fair Value at August 31, 2021<sup>1</sup>

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%

<sup>1</sup> In millions of dollars.

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

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

## Comparative Investment Schedule - PSF(SLB)

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

<u>Asset Class</u>	<u>As of 8-31-21</u>	<u>As of 8-31-20</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds <sup>1</sup>				
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 <sup>2</sup>	<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%

<sup>1</sup> 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.

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



in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

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

### **The School District Bond Guarantee Program**

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

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

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

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

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

## **The Charter District Bond Guarantee Program**

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

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

As of March 2021 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.83%. At February 11, 2022, there were 191 active open-enrollment charter schools in the State and there were 911 charter school campuses active under such charters (though as of such date, 27 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Education Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under

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

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

### **Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the 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.

#### Changes in SBOE-determined multiplier for State Capacity Limit

<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/](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 CDBG 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 CDBG Rules previously required the Education Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At December 31, 2021, the Charter District Reserve Fund contained \$72,968,033, which represented approximately 2.1% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF staff.

### **Charter District Risk Factors**

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. 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 "Ratings" herein.

## Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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 <sup>(2)</sup>	38,699,045,012	55,581,401,632

<sup>(1)</sup> 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.

<sup>(2)</sup> At August 31, 2021, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$183.7 million, \$4,655.9 million, \$4.7 million, and \$699.2 million, respectively, and market values of approximately \$2,720.4 million, \$629.3 million, \$4,636.6 million, \$1.8 million, and \$699.2 million, respectively. At December 31, 2021, the PSF had a book

value of \$39,841,061,222 and a market value of \$56,168,194,806. December 31, 2021 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></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 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> At August 31, 2021 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$144,196,223,433, of which \$48,937,061,511 represents interest to be paid. As shown in the table above, at August 31, 2021, there were \$95,259,161,922 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2021, 6.49% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2021, the amount of outstanding bond guarantees represented 82.68% of the Capacity Limit (which is currently the IRS Limit). December 31, 2021 values are based on unaudited data, which is subject to adjustment.

#### **Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

<u>School District Bonds</u>			<u>Charter District Bonds</u>		<u>Totals</u>	
<u>Fiscal Year Ended 8/31</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 <sup>(2)</sup>	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922

<sup>(1)</sup> 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.

<sup>(2)</sup> At December 31, 2021 (based on unaudited data, which is subject to adjustment), there were \$96,973,094,043 of bonds guaranteed under the Guarantee Program, representing 3,520 school district issues, aggregating \$97,006,213,263 in principal amount and 89 charter district issues, aggregating \$3,408,646,000 in principal amount. At December 31, 2021, the CDBG Capacity was \$7,612,220,802 (based on unaudited data, which is subject to adjustment).

#### **Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 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 8-31-2021<sup>1</sup>

Portfolio	Return	Benchmark Return <sup>2</sup>
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

<sup>1</sup> 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.

<sup>2</sup> 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 <http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5>.

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

The TEA received an appropriation of \$30.4 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](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/) at [http://tea.texas.gov/Finance\\_and\\_Grants/Texas\\_Permanent\\_School\\_Fund/Texas\\_Permanent\\_School\\_Fund\\_Disclosure\\_Statement\\_-\\_Bond\\_Guarantee\\_Program/](http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/). The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019 and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://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](http://www.emma.msrb.org).

## **Limitations and Amendments**

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

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

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

## **Compliance with Prior Undertakings**

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

## **SEC Exemptive Relief**

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

## **AD VALOREM TAX PROCEDURES**

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

## **Valuation of Taxable Property**

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

entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. Senate Joint Resolution 2, passed during the Third Special Session of the 87th Texas Legislature, proposes a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000. If approved by the voters at an election to be held on May 7, 2022, the proposed constitutional amendment could be effective for the tax year beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature makes provisions based on the outcome of the constitutional amendment election for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

### **Local Option Homestead Exemptions**

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

### **State Mandated Freeze on School District Taxes**

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

### **Personal Property**

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

### **Freeport and Goods-In-Transit Exemptions**

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

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

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

### **Other Exempt Property**

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

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning prior to January 1, 2022, except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. For tax years beginning on or after January 1, 2022, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

### **Tax Increment Reinvestment Zones**

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

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

### **Tax Limitation Agreements**

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. 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 TAX CODE AS APPLIED TO THE DISTRICT" herein.

### **District and Taxpayer Remedies**

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year and \$50.6 million for the 2021 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate. The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate").

The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. 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 TAX CODE AS APPLIED TO THE DISTRICT**

Each Appraisal District has the responsibility for appraising property in the District in its respective county, as well as other taxing units in Wilbarger and Foard Counties.

The Appraisal Districts are governed by a board of five directors appointed by members of the governing bodies of various political subdivisions within Wilbarger and Foard Counties, respectively.

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

Aside from State mandated exemptions of \$25,000 for general homestead and an additional \$10,000 for persons over 65 and disabled; the District does not grant an additional exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not grant a local-option exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The District does tax non-business personal property.

The District does not permit split payments of taxes, and discounts for the early payments of taxes are not allowed.

The District has not adopted a tax abatement policy and does not participate in a tax increment financing zone.

The District has granted and continues to assess future value limitation agreements under Chapter 313 of the Texas Tax Code, the Texas Economic Development Act ("Chapter 313"). Under the Act, Texas school districts may grant value limitation agreements that limit the taxable value of certain qualified investments.

For each of these value limitation agreements, it is significant to note that the value limitation applies only to the maintenance and operations taxes of the school district; the total assessed value of these investments will be available to pay the voter-approved bonds. Documents relevant to these projects can be accessed at:

<https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php>.

The District has not taken action to tax goods-in-transit.

The District does tax freeport property.

The District 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.

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

<b>Month</b>	<b>Cumulative Penalty</b>	<b>Cumulative Interest <sup>(b)</sup></b>	<b>Total</b>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	27% <sup>(a)</sup>	6%	33%

<sup>(a)</sup> Includes additional penalty of 20% assessed after July 1 in order to defray attorney collection expenses.

<sup>(b)</sup> Taxes delinquent after July 1 incur an additional interest penalty of 20% of the sum of the delinquent taxes plus the penalties and interest to defray attorney collection fees.

## **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

### **Litigation Relating to the Texas Public School Finance System**

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII,

section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

### **Possible Effects of Changes in Law on District Bonds**

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

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

*During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District continues to monitor the provisions of HB 3 and SB 2, and monitor the on-going guidance provided by TEA. The information contained herein under the captions "Current Public School Finance System" and "Tax Rate Limitations" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. Additionally, the Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021 for the State's 87th Legislative Regular Session and recently concluded its third Special Session of the State's 87th Legislature. The State Legislature may consider changes to the current laws including the public finance system, the levy and collection of ad valorem taxes, and other relevant laws.*

### **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**

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the "2019 Legislation"). The 2019 Legislation orders a school district's M&O tax rate into two distinct parts: the "Tier One Tax Rate," which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

**State Compression Percentage.** The "State Compression Percentage" is set at 93% per \$100 of taxable value. Beginning in State fiscal year ending in 2021, the State Compression is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

**Maximum Compressed Tax Rate.** Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

During the 2021 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.

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

For the 2021-2022 school year, the fast growth allotment weight is 0.45 for districts in the top 40% of school districts for growth, 0.30 for districts in the middle 30% of school districts for growth and 0.15 for districts in the bottom 30% of school districts for growth. After the 2021-2022 school year, the fast growth allotment weights change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$270 million for the 2021-2022 school year, \$310 million for the 2022-2023 school year and \$315 million for the 2023-2024 school year.

**Tier Two.** Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be

provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

Since future-year IFA awards were not funded by the State Legislature for the 2022-2023 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2022-2023 State fiscal biennium on new bonds issued by school districts in the 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 Finance System prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Notwithstanding the foregoing, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

#### **Local Revenue Level in Excess of Entitlement**

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

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

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

## **2021 Regular and Special Legislative Sessions**

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

During the 87th Texas Legislative Session, the Legislature approved a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures, among other legislation affecting school districts and the administrative agencies that oversee school districts. House Bill 1525 contained a number of technical modifications to the Finance System as established under HB 3 during the 86th Legislative Session. Following the conclusion of the 87<sup>th</sup> Regular Session, the Texas Governor has called three special sessions of the Legislature. No significant changes were made to the Texas school finance system or property tax systems during the First and Second Special Sessions. Senate Joint Resolution 2, passed during the Third Special Session, proposes a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000. If approved by the voters at an election to be held on May 7, 2022, the proposed amendment to the Constitution will be effective for the tax year beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session makes provisions based on the outcome of the constitutional amendment election for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

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

## **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 not been required to exercise one of the wealth equalization options permitted under applicable State law.

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

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

### **TAX RATE LIMITATIONS**

#### **M&O Tax Rate Limitations**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 14, 1963, under Article 2784e-1, Texas Revised Statutes Annotated, as amended (Article 2784e-1”).

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

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

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

#### **I&S Tax Rate Limitations**

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness (see “THE BONDS – Security 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 threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas

Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as "new money bonds" pursuant to Chapter 45, as amended, Texas Education Code, and are, therefore, subject to the 50-cent Test. The District has not utilized projected property 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. For the 2020 tax year and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

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

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

## **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's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRC costs relating to employee salaries that exceed the statutory limit.

In addition to the TRS retirement plan, the District provides health coverage for its employees. For a discussion of the TRS retirement plan and the District's medical benefit plan, see the audited financial statements of the District that are attached hereto as APPENDIX B.

As a result of its participation in the TRS and having no other post-retirement benefit plans, the District has no obligation for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

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

## **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**

### **Legal Opinions and No-Litigation Certificate**

The District will furnish the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, 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. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING (except the subcaption "Sources and Uses of Funds")," "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "Payment Record," "Default and Remedies," and "Future Issues," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" (except information appearing under the subcaption "Possible Effects of Changes in Law on District Bonds" as to which no opinion is expressed), "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (excluding the subcaption "Public Hearing and Voter-Approval Tax Rate" as to which no opinion is expressed), "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" (excluding the last two sentences of this paragraph and the information under the subcaption "Litigation" as to which no opinion is expressed), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), 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 Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by its co-counsel, Sara Leon & Associates, PLLC, Austin, Texas, and Norton Rose Fulbright US LLP, Houston, Texas, whose compensation is contingent on the sale and delivery of the Bonds.

Though it represents the Municipal Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise 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 Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale, or delivery of the Bonds.

## **TAX MATTERS**

### **Opinion**

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

In rendering its opinion, Bond Counsel to the Issuer will rely upon (a) the Issuer's federal tax certificate, (b) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure of the Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

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

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

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

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

### **Collateral Federal Income Tax Consequences**

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

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

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

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

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

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal

income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## **Future and Proposed Legislation**

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

## **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.

## **CONTINUING DISCLOSURE**

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

## **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in the numbered tables shown in Appendix A (excluding "Table 6 - Estimated Overlapping Debt") and such information is referred to as the "Annual Filing Information". The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix B and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Filing Report within six months after the end of each fiscal year and the Financial Statements within 12-months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2022.

The District may provide the Financial Statements earlier, including at the time it provides its Annual Filing Report, but if the audit of such Financial Statements is not complete within 12-months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

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

## **Notice of Certain Events**

The District will 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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, 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. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with Rule 15c2-12.

## **Availability of Information 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 filed with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at [www.emma.msrb.org](http://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**

During the past five years the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **OTHER PERTINENT INFORMATION**

### **Authenticity of Financial Information**

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

### **Registration and Qualification of Bonds for Sale**

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

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

### **Municipal Bond Rating**

The Bonds are 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 Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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

### **Underwriting**

The Underwriters have 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 Underwriters' discount of \$221,001.00. The Underwriters' obligation

is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

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

The Underwriters and their respective 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.

On February 28, 2022, First Horizon Corporation and TD Bank Group announced that First Horizon Corporation entered into a definitive agreement to be acquired by TD Bank Group. FHN Financial Capital Markets is the municipal underwriting business line of FHN Financial, the fixed income division of First Horizon Bank, whose parent company is First Horizon Corporation. The acquisition is expected to be completed in late 2022 or early 2023 pending regulatory approvals. This transaction should not have any material effect on this underwriting transaction.

#### **Use of Audited Financial Statements**

Edgin, Parkman, Fleming & Fleming, PC, Wichita Falls, Texas ("Edgin"), the District's independent auditor, has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Edgin has not performed any procedures relating to this Official Statement.

#### **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, SEC Rule 15c2-12.

### Authorization of the Official Statement

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

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

The Bond Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

### VERNON INDEPENDENT SCHOOL DISTRICT

/s/ Emory Byars  
Emory Byars; President

/s/ Tom Scott  
Tom Scott; Secretary



## APPENDIX A

### Selected Financial Information Regarding the District

**TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT**

<u>Assessed Valuation and Exemption<sup>(1)</sup></u>	
2021 Market Valuation	\$1,872,536,310
Less Exemptions and Deductions	<u>(789,661,802)</u>
2021 Tax Year Net Taxable Valuation	<u>\$1,082,874,508</u>
<u>Tax Supported Debt</u>	
Unlimited Tax Bonds Outstanding	-
Plus: The Bonds	<u>37,530,000</u>
Total Unlimited Tax Bonds	<u>\$37,530,000</u>
Less: Interest and Sinking Fund Balance <sup>(2)</sup>	-
Net General Obligation Debt <sup>(3)</sup>	<u>\$37,530,000</u>
Ratio of Net G.O. Debt to Net Taxable Valuation	3.47%
Estimated District Population <sup>(4)</sup>	11,223
Per Capita Net Taxable Valuation	\$96,487
Per Capita Net G.O. Debt	\$3,344

<sup>(1)</sup> Source: Wilbarger and Foard County Appraisal Districts.

<sup>(2)</sup> For Fiscal Year 2020/2021 the District did not levy an I&S Tax.

<sup>(3)</sup> Includes the Bonds.

<sup>(4)</sup> Source: The Municipal Advisory Council of Texas.

**TABLE 2 - HISTORICAL NET TAXABLE VALUATION <sup>(1)</sup>**

	<b>Tax Year 2021</b>	<b>Tax Year 2020</b>	<b>Tax Year 2019</b>	<b>Tax Year 2018</b>	<b>Tax Year 2017</b>
Gross Value	\$1,872,536,310	\$1,709,559,308	\$1,531,364,951	\$1,561,312,570	\$1,584,904,170
Less: Exemptions/Reductions	<u>789,661,802<sup>(2)</sup></u>	<u>548,126,612</u>	<u>545,985,092</u>	<u>560,755,060</u>	<u>555,405,970</u>
<b>Net Taxable Value</b>	<b>\$1,082,874,508</b>	<b>\$1,161,432,696</b>	<b>\$985,379,859</b>	<b>\$1,000,557,510</b>	<b>\$1,029,498,200</b>

<sup>(1)</sup> Source: Wilbarger and Foard County Appraisal Districts.

<sup>(2)</sup> The increase in 2021 Exemptions/Reductions was due to an increase in Productivity Loss. Market values of agriculture and timber land increased by roughly 56% from 2020 to 2021, therefore increasing the Productivity Loss or exemptions associated with the productivity value of property in the District.

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**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Taxable Evaluation	Tax Supported Debt Per Capita
2018	12,053	\$1,029,498,200	\$85,414	\$575,000	0.06%	\$48
2019	11,993	1,000,557,510	83,428	-	-	-
2020	11,373	985,379,859	86,642	-	-	-
2021	11,213	1,161,432,696	103,579	-	-	-
2022	11,223	1,082,874,508	96,487	37,530,000 <sup>(3)</sup>	3.47% <sup>(3)</sup>	3,344 <sup>(3)</sup>

<sup>(1)</sup> Source: The Municipal Advisory Council of Texas.

<sup>(2)</sup> Source: Wilbarger and Foard County Appraisal Districts.

<sup>(3)</sup> Includes the Bonds.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY<sup>(1)</sup>**

Fiscal Year Ended 8/31	Tax Year	Tax Rate	Distribution		Tax Levy	Percent Collections <sup>(3)</sup>	
			General Fund	Interest and Sinking Fund		Current	Total
2018	2017	\$1.1000	\$1.0400	\$0.0600	\$9,802,504	98.59%	99.73%
2019	2018	1.0800	1.0400	0.0400	9,496,853	99.51%	102.49%
2020	2019	0.9700	0.9700	(2) 0.0000	8,549,595	96.32%	98.11%
2021	2020	0.9664	0.9664	(2) 0.0000	8,571,305	98.49%	100.48%
2022	2021	0.9634	0.9634	(2) 0.0000	8,130,088	93.77% <sup>(4)</sup>	93.77% <sup>(4)</sup>

<sup>(1)</sup> Source: Districts Audited Financial Statements.

<sup>(2)</sup> 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.

<sup>(3)</sup> Excludes penalties and interest.

<sup>(4)</sup> Source: Wilbarger County Tax Collector/Assessor. Partial collections as of February 28, 2022.

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**TABLE 5 - TEN LARGEST TAXPAYERS<sup>(1)(2)</sup>**

Name of Taxpayer	Taxpayer Type	2021/2022 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Electric Transmission of Texas	Electric Utility/Power Plant	\$192,464,450	17.77%
Lockett Wind Farm <sup>(3)</sup>	Wind Farm/Turbines	185,907,760	17.17%
Electra Wind LLC <sup>(3)</sup>	Wind Farm/Turbines	101,206,760	9.35%
Tyson Foods Inc.	Meat Products	37,329,700	3.45%
AEP Texas Inc.	Electric Utility/Power Plant	35,423,420	3.27%
Solvay USA Inc.	Industrial Manufacturing	23,660,380	2.18%
BNSF Railway Company	Railroad	21,231,660	1.96%
AEP Public SVC Co of Oklahoma	Electric Utility/Power Plant	19,836,560	1.83%
Oncor Electric Delivery Co.	Electric Utility/Power Plant	18,054,760	1.67%
Waggoner W T EST	Ranch	13,254,840	1.22%
		<u>\$648,370,290</u>	<u>59.87%</u>

<sup>(1)</sup> Source: Wilbarger and Foard County Appraisal Districts.

<sup>(2)</sup> As shown in the table above, the ten largest taxpayers in the District currently account for over 59% of the District's tax base, with the majority of such property comprised of utilities and wind energy related business activities. Adverse developments in economic conditions, especially in the oil and gas industries, 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.

<sup>(3)</sup> The District entered into tax value limitation agreements pursuant to Chapter 313, Texas Tax Code, as amended, with Lockett Wind Farm, LLC, dated September 17, 2018, and Electra Wind, LLC, dated September 21, 2015, as amended. The tax value limitation agreements with the above described taxpayers applies only to the project's taxable value for maintenance and operations taxing purposes and the project remains fully taxable for interest and sinking fund taxing purposes. See "AD VALOREM TAX PROCEDURES—Tax Code as Applied to the District."

**TABLE 6 - ESTIMATED OVERLAPPING DEBT <sup>(1)</sup>**

Taxing Jurisdiction	Total Debt	As of	% Overlapping	Overlapping Debt
Foard County	\$0	2/28/2022	0.50%	\$0
Vernon, City of	\$15,650,000	2/28/2022	100.00%	\$15,650,000
Wilbarger County	\$0	2/28/2022	87.88%	\$0
Estimated (Net) Overlapping Debt				<u>\$15,650,000</u>
Vernon ISD <sup>(2)</sup>		4/26/2022		<u>\$37,530,000</u>
<b>Total Direct &amp; Estimated Overlapping Debt</b>				<u><b>\$53,180,000</b></u>

Total Direct and Overlapping Debt % of the 2021 Certified Assessed Valuation <sup>(2)</sup> 4.91%

Total Direct and Overlapping Debt Per Capita <sup>(2)</sup> \$4,738

<sup>(1)</sup> Source: The Municipal Advisory Council of Texas.

<sup>(2)</sup> Includes the Bonds.

**TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Period Ending 8/31	The Bonds			% of Principal Retired
	Principal	Interest	Total	
2022	\$ -	\$ -	\$ -	0.00%
2023	495,000	2,046,633	2,541,633	1.32%
2024	990,000	1,530,975	2,520,975	3.96%
2025	1,015,000	1,480,850	2,495,850	6.66%
2026	1,050,000	1,429,225	2,479,225	9.46%
2027	1,050,000	1,376,725	2,426,725	12.26%
2028	1,060,000	1,323,975	2,383,975	15.08%
2029	1,070,000	1,270,725	2,340,725	17.93%
2030	1,085,000	1,216,850	2,301,850	20.82%
2031	1,105,000	1,162,100	2,267,100	23.77%
2032	1,125,000	1,106,350	2,231,350	26.77%
2033	1,135,000	1,049,850	2,184,850	29.79%
2034	1,175,000	992,100	2,167,100	32.92%
2035	1,220,000	932,225	2,152,225	36.17%
2036	1,220,000	877,325	2,097,325	39.42%
2037	1,265,000	827,625	2,092,625	42.79%
2038	1,210,000	778,125	1,988,125	46.02%
2039	1,260,000	728,725	1,988,725	49.37%
2040	1,195,000	679,625	1,874,625	52.56%
2041	1,245,000	630,825	1,875,825	55.88%
2042	1,240,000	581,125	1,821,125	59.18%
2043	1,290,000	530,525	1,820,525	62.62%
2044	1,340,000	477,925	1,817,925	66.19%
2045	1,395,000	423,225	1,818,225	69.90%
2046	1,450,000	369,950	1,819,950	73.77%
2047	1,500,000	318,325	1,818,325	77.76%
2048	1,555,000	264,863	1,819,863	81.91%
2049	1,610,000	209,475	1,819,475	86.20%
2050	1,665,000	152,163	1,817,163	90.63%
2051	1,725,000	92,838	1,817,838	95.23%
2052	1,790,000	31,325	1,821,325	100.00%
Total	\$37,530,000	\$24,892,570	\$62,422,570	

*[Remainder of page intentionally left blank]*

**TABLE 8 – TAX ADEQUACY**

2022 Net Principal and Interest Requirements <sup>(1)</sup>	\$0
\$0.0000 Tax Rate at 97% Collection Produces <sup>(2)</sup>	\$0
Average Net Principal and Interest Requirements <sup>(1)</sup>	\$2,080,752
\$0.1981 Tax Rate at 97% Collection Produces <sup>(2)</sup>	\$2,080,819
Maximum Net Principal and Interest Requirements, 2023 <sup>(1)</sup>	\$2,541,633
\$0.2420 Tax Rate at 97% Collection Produces <sup>(2)</sup>	\$2,541,940

<sup>(1)</sup> Includes the Bonds.

<sup>(2)</sup> Based upon the 2021 Certified Net Taxable Value.

**TABLE 9 – AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Bonds, the District anticipates that it will have \$0 in voted but unissued bonds as further described below.

A summary of the bonds authorized at said Election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
For constructing, renovating, improving, expanding and equipping school facilities in the District consisting of a new elementary campus and renovations and additions to the high school campus.	\$40,000,000	\$0	\$40,000,000 (\$37,530,000 in principal plus \$2,470,000 in premium allocated to the Bonds)	\$0

In addition to unlimited tax bonds, 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.

**TABLE 10 - OTHER OBLIGATIONS <sup>(1)</sup>**

As of August 31, 2021, the District had no other obligations outstanding.

<sup>(1)</sup> Source: District's Records.

**TABLE 11 - CURRENT INVESTMENTS (Unaudited as of December 31, 2021) <sup>(1)</sup>**

Description	Market Value	% of Total
Money Market	2,501,469	64.90%
LoneStar Investment Pool	1,352,998	35.10%
	\$3,854,467	100.00%

<sup>(1)</sup> District's records.

**TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY <sup>(1)</sup>**

	Fiscal Year Ended August 31,				
<b>REVENUES:</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Local Sources	\$11,473,141	\$9,148,158	\$11,093,319	\$10,991,471	\$10,067,755
State Program Revenues	9,734,230	9,593,002	8,060,974	8,057,678	7,392,426
Federal Program Revenues	297,223	646,012	954,598	815,352	752,337
<b>Total Revenues</b>	<b>\$21,504,594</b>	<b>\$19,387,172</b>	<b>\$20,108,891</b>	<b>\$19,864,501</b>	<b>\$18,212,518</b>
<b>EXPENDITURES:</b>					
Instruction	\$10,544,436	\$10,360,570	\$9,898,566	\$10,137,331	\$10,267,371
Instructional Resources and Media Svcs.	174,398	172,776	167,112	170,135	169,934
Curriculum and Staff Development	252,946	101,167	89,655	88,538	90,106
Instructional Leadership	210,400	191,775	180,184	177,264	147,477
School Leadership	1,182,833	1,059,122	1,014,420	1,018,904	1,011,898
Guidance, Counseling and Evaluation Svcs.	500,400	531,736	501,102	495,327	456,926
Social Work Services	27,443	3,419	2,547	1,739	1,740
Health Services	211,507	159,122	124,458	174,006	179,102
Student Transportation	192,507	573,353	593,981	567,929	561,303
Food Services	41,829	35,923	18,403	15,737	19,325
Extracurricular Activities	917,797	686,732	707,633	754,521	678,823
General Administration	717,908	888,930	739,802	789,077	695,501
Facilities Maintenance and Operations	2,517,734	3,082,544	2,201,286	2,211,758	2,044,660
Security and monitoring services	85,339	66,781	61,467	23,644	15,447
Data Processing Services	332,017	327,220	248,772	262,880	274,488
Community Service	-	-	-	-	-
Principal on Long-Term Debt	-	-	-	91,884	90,416
Interest on Long-Term Debt	-	-	-	2,931	5,831
Bond Issuance Costs and Fees	-	-	-	-	-
Capital Outlay	524,108	-	1,530,645	315,150	-
Payments to Shared Service Arrangments	292,438	324,998	289,425	289,259	273,919
Other Intergovernmental	188,630	182,833	191,794	203,124	205,826
<b>Total Expenditures</b>	<b>\$18,914,670</b>	<b>\$18,749,001</b>	<b>\$18,561,252</b>	<b>\$17,791,138</b>	<b>\$17,190,093</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$2,589,924</b>	<b>\$638,171</b>	<b>\$1,547,639</b>	<b>\$2,073,363</b>	<b>\$1,022,425</b>
Other Financing sources and (Uses):					
Sale of Real and Personal Property	-	-	230	9,444	153
Proceeds from Capital Lease	-	-	-	-	-
Transfers In	164,056	60,047	-	-	-
Transfers Out	-	(90,632)	(3,485)	-	(20,739)
Total Other Financing Sources and (Uses)	164,056	(\$30,585)	(\$3,255)	\$9,444	(\$20,586)
<b>Net Change in Fund Balances</b>	<b>\$2,753,980</b>	<b>\$607,586</b>	<b>1,544,384</b>	<b>2,082,807</b>	<b>1,001,839</b>
<b>Fund Balance, Beginning</b>	<b>\$11,680,799</b>	<b>\$11,342,653</b>	<b>\$9,798,269</b>	<b>\$7,715,462</b>	<b>\$6,713,623</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>(\$269,440)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance, Ending</b>	<b>\$14,434,779</b>	<b>\$11,680,799</b>	<b>\$11,342,653</b>	<b>\$9,798,269</b>	<b>\$7,715,462</b>

<sup>(1)</sup> Source: District's Audited Financial Statements

## **APPENDIX B**

### **Audited Financial Statements**

The information contained in this appendix consists of the Vernon Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 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.

# **VERNON INDEPENDENT SCHOOL DISTRICT**

## **ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2021**



# VERNON INDEPENDENT SCHOOL DISTRICT

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2021

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# VERNON INDEPENDENT SCHOOL DISTRICT

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2021

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## ***INTRODUCTORY SECTION***

CERTIFICATE OF BOARD

Vernon Independent School District  
Name of School District

Wilbarger  
County

244-903  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved \_\_\_\_\_ disapproved for the year ended August 31, 2021, at a meeting of the Board of Trustees of such school district on the 10 day of March, 2022.

Tom Scott  
Signature of Board Secretary

Emory Byars  
Signature of Board President

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

## ***FINANCIAL SECTION***



## EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

1401 HOLLIDAY ST., SUITE 216 • P.O. Box 750  
WICHITA FALLS, TEXAS 76307-0750  
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA  
DAVID L. PARKMAN, CPA  
A. PAUL FLEMING, CPA

### **Independent Auditor's Report on Financial Statements**

Board of Trustees  
Vernon Independent School District  
1713 Wilbarger Street  
Vernon, Texas 76384

Members of the Board of Trustees:

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

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 Vernon Independent School District as of August 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information, and required Texas Education Agency Schedules 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 other supplementary information, Texas Education Agency Schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 other supplementary information, Texas Education Agency Schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and Schedule of Required Responses to Selected School FIRST Indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

*Edgin, Parkman, Fleming & Fleming, PC*

Edgin, Parkman, Fleming & Fleming, PC

March 7, 2022



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Vernon Independent School District, we offer readers of the District's Annual Financial Report this narrative overview and analysis of the District's financial performance during the fiscal year ended August 31, 2021. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at August 31, 2021 by \$14,461,383 (net position). Of this amount, the unrestricted net position is \$1,739,848.
- During the year, the District's total net position increased by \$2,582,456. The District's program revenues of \$4,646,138 and general revenues of \$20,448,611 were more than the District's expenses of \$22,512,293.
- The total cost of the District's programs decreased \$1,067,419 from the prior year.
- The governmental funds reported a fund balance at year-end of \$14,640,222, which is an increase of \$2,784,507 in comparison with the prior year end amount.
- At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$8,934,779, or 47% of the total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

#### Government-Wide Financial Statements

All of the District's services are reported in the government-wide financial statements, including instruction, student support services, student transportation, general administration, school leadership, and food services. Property taxes, state and federal aid, and investment earnings finance most of the activities. Additionally, all capital and debt financing activities are reported here.

The government-wide financial statements are designed to provide readers a broad overview of the District's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all the District's assets, liabilities, and deferred inflows and outflows with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The *statement of activities* details how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change

occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected property taxes and earned but unused vacation leave).

### **Fund Financial Statements**

The District uses fund accounting to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Some funds are required by State law and or bond covenants. Other funds may be established by the District to control and manage money for particular purposes or to evidence appropriate use of certain taxes, grants, and other special revenues.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's short-term financing requirements.

Because the focus on *governmental funds* is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Reconciliations are provided for both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. These reconciliations facilitate the comparison between *governmental funds* and *governmental activities*.

The District maintained multiple governmental funds in fiscal year 2020-21. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance for the General and ESSER III Funds which are considered to be major funds. Financial data for the other governmental funds are combined into a single, aggregated presentation.

The **proprietary fund** is used to account for operations that are financed similar to those in the private sector. This fund provides both long- and short-term financial information. The District maintains only one type of proprietary fund, the *internal service fund*. The *internal service fund* is a device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report the activities for its self-funded workers' compensation program.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside of the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position.

### **Notes to the Basic Financial Statements**

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

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Immediately following the *required supplementary information* is the *other supplementary information* which includes required TEA schedules.

## Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a government's financial position. Exhibited below in Table 1 is the District's net position summarized for the *governmental activities*.

**Table 1 - District's Net Position**

	Governmental Activities			
	2021	2020	Change	% Change
Current and other assets	\$ 17,057,025	\$ 14,291,579	\$ 2,765,446	19%
Capital assets, net	12,658,540	12,810,537	(151,997)	-1%
<b>Total Assets</b>	<b>29,715,565</b>	<b>27,102,116</b>	<b>2,613,449</b>	<b>10%</b>
<b>Deferred outflows</b>	<b>2,403,676</b>	<b>3,107,757</b>	<b>(704,081)</b>	<b>-23%</b>
Current liabilities	1,844,740	1,821,156	23,584	1%
Noncurrent liabilities	9,953,025	11,925,329	(1,972,304)	-17%
<b>Total Liabilities</b>	<b>11,797,765</b>	<b>13,746,485</b>	<b>(1,948,720)</b>	<b>-14%</b>
<b>Deferred inflows</b>	<b>5,860,093</b>	<b>4,584,461</b>	<b>1,275,632</b>	<b>28%</b>
Net position:				
Investment in capital assets	12,658,540	12,810,537	(151,997)	-1%
Restricted	62,995	38,224	24,771	65%
Unrestricted	1,739,848	(969,834)	2,709,682	-279%
<b>Total Net Position</b>	<b>\$ 14,461,383</b>	<b>\$ 11,878,927</b>	<b>\$ 2,582,456</b>	<b>22%</b>

Investment in capital assets (e.g. land, buildings, furniture, and equipment less any related debt used to acquire those assets that is still outstanding) is \$12,658,540. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. The District has no outstanding debt at year-end.

A small portion of the District's net position, \$62,995, represents resources that are subject to external restrictions on how they may be used. The remainder of the District's net position is an unrestricted balance of \$1,739,848.

## Changes in Net Position

The District's total revenues, both program and general, were \$25,094,749. A significant portion, 34%, of the District's revenue comes from property taxes. State aid formula grants provided 35% of the revenues and 17% comes from operating grants, while only 1% relates to charges for services. Exhibited below in Table 2 are the District's revenues for the years ended August 31, 2021 and 2020 for the District's *governmental activities*.

**Table 2 - District's Revenues**

	Governmental Activities			
	2021	Percent	2020	Percent
Charges for services	\$ 278,704	1%	\$ 236,261	1%
Operating grants and contributions	4,367,434	17%	4,171,460	18%
Property taxes	8,635,115	34%	8,613,252	38%
State aid formula grants	8,702,603	35%	8,569,274	37%
Grants and contributions not restricted	359,461	2%	702,528	3%
Investment earnings	228,934	1%	210,924	1%
Miscellaneous	2,522,498	10%	444,159	2%
<b>Total Revenues</b>	<b>\$ 25,094,749</b>	<b>100%</b>	<b>\$ 22,947,858</b>	<b>100%</b>

Exhibited below in Table 3 are the District's expenses for the years ended August 31, 2021 and 2020 for the District's *governmental activities*. The total cost of all programs and services was \$22,512,293. Instructional and related costs totaled 60% of these costs while student support was 15% and nonstudent support was 14%.

**Table 3 - District's Expenses**

	Governmental Activities			
	2021	Percent	2020	Percent
Instructional & related	\$ 13,483,207	60%	\$ 13,614,027	57%
Leadership	1,609,335	7%	1,565,139	7%
Student support	3,413,245	15%	3,523,055	15%
Administrative support	764,888	3%	926,065	4%
Nonstudent support	3,052,435	14%	3,757,962	16%
Other	189,183	1%	193,464	1%
<b>Total Expenses</b>	<b>\$ 22,512,293</b>	<b>100%</b>	<b>\$ 23,579,712</b>	<b>100%</b>

### Governmental Activities

Table 4 presents the various revenue categories and gross costs of each of the District's functional areas for both the current and prior year. Following the table, we provide explanations for the significant or unusual fluctuations between the two years.

**Table 4 - Changes in Net Position**

	Governmental Activities			
	2021	2020	Change	% Change
Revenues:				
Program revenues:				
Charges for services	\$ 278,704	\$ 236,261	\$ 42,443	18%
Operating grants and contributions	4,367,434	4,171,460	195,974	5%
General revenues:				
Property taxes	8,635,115	8,613,252	21,863	0%
State aid formula grants	8,702,603	8,569,274	133,329	2%
Grants and contributions not restricted	359,461	702,528	(343,067)	-49%
Investment earnings	228,934	210,924	18,010	9%
Miscellaneous	2,522,498	444,159	2,078,339	468%
Total revenues	<u>25,094,749</u>	<u>22,947,858</u>	<u>2,146,891</u>	<u>9%</u>
Expenses:				
Instruction	13,022,902	13,305,497	(282,595)	-2%
Instructional resources and media services	183,413	190,355	(6,942)	-4%
Curriculum and staff development	276,892	118,175	158,717	134%
Instructional leadership	322,969	328,409	(5,440)	-2%
School leadership	1,286,366	1,236,730	49,636	4%
Guidance, counseling, and evaluation services	797,338	890,551	(93,213)	-10%
Social work services	84,632	96,153	(11,521)	-12%
Health services	253,299	190,456	62,843	33%
Student transportation	215,449	518,154	(302,705)	-58%
Food services	1,015,496	1,077,889	(62,393)	-6%
Cocurricular/extracurricular activities	1,047,031	749,852	297,179	40%
General administration	764,888	926,065	(161,177)	-17%
Facilities maintenance and operations	2,643,025	3,298,717	(655,692)	-20%
Security and monitoring services	59,723	91,944	(32,221)	-35%
Data processing services	349,687	367,301	(17,614)	-5%
Community services	553	10,631	(10,078)	-95%
Other intergovernmental charges	188,630	182,833	5,797	3%
Total expenses	<u>22,512,293</u>	<u>23,579,712</u>	<u>(1,067,419)</u>	<u>-5%</u>
Change in net position	<u>\$ 2,582,456</u>	<u>\$ (631,854)</u>	<u>\$ 3,214,310</u>	<u>-509%</u>

- Grants and contributions not restricted decreased \$343,067, or 49%, from the prior year. Most of the decrease is due to decrease in SHARS revenue because the PY had 2 SHARS cost reports and CY just had only one.
- Miscellaneous revenues increased \$2,078,339, or 468%, from the prior year. The increase is because the District received a one-time payment from one of its Section 313 taxpayers of \$2,050,596 in the current year.
- Student transportation decreased \$302,705, or 58%, from the prior year. The decrease is because the current year transportation cost allocation was recorded to function cocurricular/extracurricular activities in the current year and was not recorded in the prior year.

- Cocurricular/extracurricular activities increased \$297,179, or 40%, from the prior year. The increase is due to transportation cost allocation from student transportation in the current year and none in the prior year along with campus activity funds included in governmental activities in the current year rather than in fiduciary activities in the prior year due to the implementation of GASB Statement No. 84 in the current year.
- Facilities maintenance and operations expenses decreased by \$655,692, or 20%, from the prior year. The increase is mostly due to fewer roofing projects in 2020-21 than 2019-20 along with a decrease in the Pension/OPEB expense adjustment from an increase in expense by \$76,229 in the prior year to an increase in expense by \$8,779 in the current year.

Table 5 presents the net cost of the District's governmental functions (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local tax dollars, state aid, and other miscellaneous general revenues.

**Table 5 - Net Cost of Selected District Functions**

	Governmental Activities			
	2021	Percent	2020	Percent
Instructional & related	\$ 10,714,374	60%	\$ 11,114,534	57%
Leadership	1,478,035	8%	1,390,001	7%
Student support	1,798,885	10%	2,037,831	11%
Administrative support	732,723	4%	876,473	5%
Nonstudent support	2,953,484	17%	3,569,860	19%
Other	188,654	1%	183,292	1%
<b>Total Net Costs</b>	<b>\$ 17,866,155</b>	<b>100%</b>	<b>\$ 19,171,991</b>	<b>100%</b>

### Financial Analysis of the District's Funds

As previously stated, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and segregation for particular purposes.

### Governmental Funds

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

As of August 31, 2021, the District's governmental funds reported a combined ending fund balance of \$14,640,222, an increase of \$2,784,507 from the previous year. Table 6 illustrates the fund balances of the governmental funds.

**Table 6 - Governmental Funds - Fund Balances**  
**August 31, 2021**

	General Fund	ESSER III Fund	Other Funds	Totals
Nonspendable:				
Inventories	\$ -	\$ -	\$ 44,552	\$ 44,552
Restricted for:				
Federal/State Grant Restrictions	-	-	18,443	18,443
Committed for:				
Construction	3,000,000	-	-	3,000,000
Equipment	1,250,000	-	-	1,250,000
Major maintenance projects	1,250,000	-	-	1,250,000
Campus activities	-	-	142,448	142,448
Unassigned	8,934,779	-	-	8,934,779
<b>Total Fund Balances</b>	<b>\$ 14,434,779</b>	<b>\$ -</b>	<b>\$ 205,443</b>	<b>\$ 14,640,222</b>

### **General Fund**

At the end of the current fiscal year, the ending fund balance for the General Fund was \$14,434,779 of which \$8,934,779 was unassigned. The unassigned fund balance represents 47% of the total General Fund expenditures for the year ended August 31, 2021. The fund balance increased \$2,753,980 in the current fiscal year.

General Fund revenues totaled \$21,504,594, an increase of \$2,117,422 or 11% from the preceding year. The most significant changes between years are as follows:

- Local and intermediate revenues increased \$2,324,983, or 25%, from the prior year. The increase was mostly due to (1) property taxes increased by \$251,459 due to the increase in the property values less a small decrease in the property tax rate and (2) a one-time payment from one of the Section 313 taxpayers of \$2,050,596.
- Federal program revenues decreased \$348,789, or 54%, from the prior year. Most of the decrease is due to the District receiving two SHARS cost report payments in the prior year and only one in the current year.

General Fund expenditures totaled \$18,914,670, an increase of \$165,669, or 1%, from the preceding year. The most significant changes between years are as follows:

- Student transportation expenditures decreased \$380,846, or 66%. The decrease is mostly because the current year transportation cost allocation to function cocurricular/extracurricular activities and no transportation cost allocation was recorded in the prior year along with the purchase of a bus in the prior year.
- Cocurricular/extracurricular activities expenditures increased \$231,065, or 34%. The increase is mostly because the current year transportation cost allocation to function cocurricular/extracurricular activities and no transportation cost allocation was recorded in the prior year.
- Administrative support services expenditures decreased \$171,022, or 19%. The decrease relates to a \$75,000 section 313 application and the purchase of a suburban for the superintendent in the prior year.



- Facilities maintenance and operations expenditures decreased \$564,810, or 18%. The decrease relates to substantial roof repairs in the prior year.
- Capital outlay expenditures increased \$524,108 from \$0 in the prior year. The increase is due to the purchase of the Opportunity Center and related costs.

### **ESSER III Fund**

The ESSER III Fund is a federal special revenue fund funded through TEA for relief under the American Relief Program (ARP) Act. The ESSER III grant is a new grant in the current year and is a cost-reimbursement grant; therefore, the revenues of \$878,935 equal the expenditures, and has no fund balance.

### **Other Governmental Funds**

Other governmental funds consist of the various other special revenue funds. The total ending fund balance for all other governmental funds combined was \$205,443, an increase of \$30,527 from the previous year restated for the prior period adjustment to include campus activity funds in governmental funds after implementing GASB statement No. 84 in the current year. The special revenue funds had an ending nonspendable fund balance of \$44,552, restricted fund balance of \$18,443 for the National School Breakfast/Lunch Program and committed fund balance of \$142,448 for campus activities.

Overall, revenue decreased \$71,643, or 2%, from the preceding year. The most significant changes between years are as follows:

- Local and intermediate revenues increased \$40,991, or 8%, from the prior year. Most of the increase relates to adding the campus activities fund to governmental activities in the CY instead of including campus activities in fiduciary activities in PY offset somewhat due to less food service revenues paid by students as the District moved to offering free meals to all students under the seamless summer option of the federal lunch program.
- State program revenues decreased \$110,603, or 52%, from the prior year. Most of the decrease is because the District expended the majority of the two year instructional materials allotment in the prior year.

Expenditures decreased \$351,524, or 11%, from the prior year. The most significant variances relate to the following:

- Instruction expenditures decreased \$414,787, or 26%. This is mostly because the District expended most of the two-year instructional media allotment in the prior year and instruction expenditures paid with ESSER I funds in the prior year were paid with ESSER III funds (a separate major fund) in the current year.
- Cocurricular/extracurricular activities expenditures increased \$110,337 from \$0 in the prior year. This is because the District included campus activities funds as a special revenue fund in other governmental funds in the current year instead of in fiduciary funds in the prior year as required by the implementation of GASB Statement No. 84.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$3,057,786 below final budget amounts. The only functional expenditure area with a significant variance was instruction, student transportation, cocurricular/extracurricular activities, facilities maintenance and operations, and facilities acquisition and construction.



- Instruction expenditures were \$1,788,090 below the budgeted amount due unfilled positions and the reclassification of retention and COVID supplemental pay for all employees to ESSER grant funds.
- Student transportation expenditures were \$324,605 below the budgeted amount due to the reallocation of transportation expenditures to the correct funds.
- Cocurricular/extracurricular activities expenditures were \$220,910 below the budgeted amount due to tremendously less program costs, travel and cancellation of events due to COVID protocols.
- Facilities maintenance and operations expenditures were \$558,355 below budgeted amounts due to COVID shutdowns and reduced and unfilled positions. All fixed costs were reduced by over 10% and supply costs reduced by 50%. Additionally, due to state of uncertainty, facility improvement projects were postponed.
- Facilities acquisition and construction were \$215,408 above the budgeted amount due to architect fees for the new bond projects that will be reimbursed in 2021-22. The District also purchased a building to start a new alternative education program.

Concerning budgeted revenues, resources available were only \$709,039 below the final budget amount. The only revenue category with a significant variance was state program revenues which was \$682,779 below the budgeted revenue because as less State funding was received than budgeted.

As noted previously, the original budget was amended throughout the year. Total revenues were increased \$2,357,180 and expenditures were increased \$1,855,503. The budget line items in the original budget that were materially different than the final adopted budget were local and intermediate sources revenues, state program revenues, instruction expenditures, facilities maintenance and operations expenditures, and facilities acquisition and construction expenditures.

- The local and intermediate sources revenues increased \$1,857,180 for a \$2 million revenue loss payment pursuant to a Section 313 value loss agreement with a wind power company.
- The state program revenues increased \$550,000 for increased per capita funding and an under estimation of Foundation revenues.
- The instruction expenditures increased \$907,251 for the uncertainty of payroll accruals and accounts payable due to the resignation of the previous business management so not to over expend the function plus a purchase of \$200,000 in Chromebooks and \$193,920 of additional capital outlay not originally budgeted for.
- The facilities maintenance and operations budget was increased \$437,768 for roof repairs and replacements.
- The facilities acquisition and construction budget was increased \$308,700 for architect fees for the bond projects and the building purchase for the alternative education program.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At August 31, 2021, the District had invested in a broad range of capital assets totaling \$12,658,540, net of accumulated depreciation, including land, buildings and improvements, and furniture and equipment. See Table 7 below.

**Table 7 - Capital Assets, Net**

	2021	2020	Change	% Change
Land	\$ 582,374	\$ 582,374	\$ -	0%
Buildings and improvements	10,392,402	10,915,840	(523,438)	-5%
Furniture and equipment	1,275,764	1,312,323	(36,559)	-3%
Construction in progress	408,000	-	408,000	N/A
<b>Totals</b>	<b>\$ 12,658,540</b>	<b>\$ 12,810,537</b>	<b>\$ (151,997)</b>	<b>-1%</b>

Capital assets, net of accumulated depreciation, decreased \$151,997, or 1% from the previous year. Additional information about the District's capital assets is presented in the notes to the financial statements.

### **Long-term Debt**

At August 31, 2021, the District had no long-term debt.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Revenues in the General Fund's 2021-22 budget are \$19,489,650, an decrease of \$2,014,944, or 9%, from the General Fund's actual 2020-21 revenues. The General Fund budgeted expenditures for 2021-22 are \$19,099,562, an increase of \$184,892, or 1%, over the prior year actual expenditures. The District also budgeted \$566,000 of transfers out and \$400,000 of other sources in the General Fund's 2021-22 budget. If the budget is maintained, the District's General Fund's fund balance will increase \$224,088 from the balance at August 31, 2021.

Key factors used in developing the 2021-22 budget are as follows:

- The uncertainty of state economic conditions and the effect of COVID made us budget conservatively.
- The constant changes to Federal Program grants and ESSER compliance and how that affects purchasing and payroll.
- Enrollment projections coming off COVID and the likelihood of a decrease in enrollment to below 1,670 refined average daily attendance.
- Notice of a new multimillion dollar 313 Agreement for wind energy project and subsequent PILOT payments.
- Unfilled professional positions as of August.
- Continued selected campuses under school improvement and costs associated with need for professional and paraprofessional staff.

### **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***

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2021**

Data Control Codes		1	Governmental Activities
<b>Assets</b>			
1110	Cash and cash equivalents	\$	14,884,397
1225	Property taxes receivable, net		377,171
1240	Due from other governments		1,685,871
1290	Other receivables		65,034
1300	Inventories		44,552
	Capital assets:		
1510	Land		582,374
1520	Buildings and improvements, net		10,392,402
1530	Furniture and equipment, net		1,275,764
1580	Construction in progress		408,000
1000	Total assets		29,715,565
<b>Deferred outflows of resources</b>			
1705	Pension-related outflows		1,661,771
1706	OPEB-related outflows		741,905
1700	Total deferred outflows of resources		2,403,676
<b>Liabilities</b>			
2110	Accounts payable		622,915
2150	Payroll deductions and withholdings		(7,310)
2160	Accrued wages payable		840,906
2180	Due to other governments		380,634
2300	Unearned revenue		7,595
	Noncurrent liabilities:		
2540	Net pension liability		4,446,878
2545	Net OPEB liability		5,506,147
2000	Total liabilities		11,797,765
<b>Deferred inflows of resources</b>			
2605	Pension-related inflows		1,139,148
2606	OPEB-related inflows		4,720,945
2600	Total deferred inflows of resources		5,860,093
<b>Net Position</b>			
3200	Net investment in capital assets		12,658,540
	Restricted for:		
3820	Food service		62,995
3900	Unrestricted		1,739,848
3000	Total net position	\$	14,461,383

*See accompanying notes to the basic financial statements.*

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

Data Control Codes	Functions/Programs	1  Expenses	3  Charges for Services	4  Program Revenues Operating Grants and Contributions	6 Net (Expense) Revenue and Changes in Net Position  Governmental Activities
	Governmental activities:				
11	Instruction	\$ 13,022,902	\$ 41,077	\$ 2,691,563	\$ (10,290,262)
12	Instructional resources and media services	183,413	-	10,553	(172,860)
13	Curriculum and staff development	276,892	-	25,640	(251,252)
21	Instructional leadership	322,969	19,045	17,878	(286,046)
23	School leadership	1,286,366	7,598	86,779	(1,191,989)
31	Guidance, counseling, & evaluation services	797,338	589	292,060	(504,689)
32	Social work services	84,632	-	55,467	(29,165)
33	Health services	253,299	-	45,754	(207,545)
34	Student transportation	215,449	-	39,996	(175,453)
35	Food services	1,015,496	44,824	949,704	(20,968)
36	Cocurricular/extracurricular activities	1,047,031	162,138	23,828	(861,065)
41	General administration	764,888	2,133	30,032	(732,723)
51	Facilities maintenance and operations	2,643,025	1,300	72,937	(2,568,788)
52	Security and monitoring services	59,723	-	1,051	(58,672)
53	Data processing services	349,687	-	23,663	(326,024)
61	Community services	553	-	529	(24)
99	Other intergovernmental charges	188,630	-	-	(188,630)
	Total governmental activities	<u>\$ 22,512,293</u>	<u>\$ 278,704</u>	<u>\$ 4,367,434</u>	<u>(17,866,155)</u>
	General revenues:				
MT	Property taxes, levied for general purposes				8,635,115
SF	State aid formula grants				8,702,603
GC	Grants and contributions not restricted to specific programs				359,461
IE	Investment earnings				228,934
MI	Miscellaneous				2,522,498
TR	Total general revenues				<u>20,448,611</u>
CN	Change in net position				<u>2,582,456</u>
NB	Net position - beginning, as originally stated				11,742,235
PA	Prior period adjustments				136,692
	Net position - beginning, as restated				<u>11,878,927</u>
NE	Net position - ending				<u>\$ 14,461,383</u>

See accompanying notes to the basic financial statements.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AUGUST 31, 2021**

Data Control Codes		10			98
		General Fund	ESSER III Fund	Other Governmental Funds	Total Governmental Funds
	<b>Assets</b>				
1110	Cash and cash equivalents	\$ 14,296,878	\$ -	\$ 305,673	\$ 14,602,551
1225	Property taxes receivable, net	377,171	-	-	377,171
1240	Due from other governments	524,767	878,935	282,169	1,685,871
1260	Due from other funds	979,198	-	35	979,233
1290	Other receivables	4,827	-	60,207	65,034
1300	Inventories	-	-	44,552	44,552
1000	Total assets	<u>\$ 16,182,841</u>	<u>\$ 878,935</u>	<u>\$ 692,636</u>	<u>\$ 17,754,412</u>
	<b>Liabilities</b>				
2110	Accounts payable	\$ 339,397	\$ 156,927	\$ 64,279	\$ 560,603
2150	Payroll deductions and withholdings	(7,310)	-	-	(7,310)
2160	Accrued wages payable	734,495	-	106,411	840,906
2170	Due to other funds	35	722,008	232,548	954,591
2180	Due to other governments	304,274	-	76,360	380,634
2300	Unearned revenue	-	-	7,595	7,595
2000	Total liabilities	<u>1,370,891</u>	<u>878,935</u>	<u>487,193</u>	<u>2,737,019</u>
	<b>Deferred inflows of resources</b>				
	Unavailable property taxes	377,171	-	-	377,171
2600	Total deferred inflows of resources	<u>377,171</u>	<u>-</u>	<u>-</u>	<u>377,171</u>
	<b>Fund balances</b>				
	Nonspendable:				
3410	Inventories	-	-	44,552	44,552
	Restricted:				
3450	Federal/state funds grant restrictions	-	-	18,443	18,443
	Committed:				
3510	Construction	3,000,000	-	-	3,000,000
3530	Capital expenditures for equipment	1,250,000	-	-	1,250,000
3545	Other committed fund balance	1,250,000	-	142,448	1,392,448
3600	Unassigned	8,934,779	-	-	8,934,779
3000	Total fund balances	<u>14,434,779</u>	<u>-</u>	<u>205,443</u>	<u>14,640,222</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 16,182,841</u>	<u>\$ 878,935</u>	<u>\$ 692,636</u>	<u>\$ 17,754,412</u>

See accompanying notes to the basic financial statements.

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

Total fund balances - governmental funds (Exhibit C-1) \$ 14,640,222

Amounts reported for *governmental activities* in the Statement of Net Position (Exhibit A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. Capital assets at year-end consist of:

Gross capital assets	\$ 33,190,664	
Related accumulated depreciation	<u>20,532,124</u>	12,658,540

Property taxes receivable are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds. 377,171

The District's net pension liability and related deferred outflows and inflows related to its proportionate share of the Teacher Retirement System pension and OPEB plans are not due and payable in the current period and are, therefore, not reported in the governmental funds financial statements. These items consist of:

Net pension liability	4,446,878	
Deferred outflows - pension related items	(1,661,771)	
Deferred inflows - pension related items	1,139,148	
Net OPEB liability	5,506,147	
Deferred outflows - OPEB related items	(741,905)	
Deferred inflows - OPEB related items	<u>4,720,945</u>	(13,409,442)

An internal service fund is used by management to charge the costs of worker's compensation claims to the individual funds. The assets and liabilities of the internal service fund are included with the governmental activities.

194,892

Total net position - governmental activities (Exhibit A-1) \$ 14,461,383

*See accompanying notes to the basic financial statements.*

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

Data Control Codes		10			98
		General Fund	ESSER III Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
5700	Local and intermediate sources	\$ 11,473,141	\$ -	\$ 539,497	\$ 12,012,638
5800	State program revenues	9,734,230	-	104,009	9,838,239
5900	Federal program revenues	297,223	878,935	2,273,196	3,449,354
5020	Total revenues	21,504,594	878,935	2,916,702	25,300,231
Expenditures					
Current:					
0011	Instruction	10,544,436	878,935	1,155,936	12,579,307
0012	Instructional resources and media services	174,398	-	-	174,398
0013	Curriculum and staff development	252,946	-	10,358	263,304
0021	Instructional leadership	210,400	-	96,677	307,077
0023	School leadership	1,182,833	-	38,570	1,221,403
0031	Guidance, counseling, & evaluation services	500,400	-	258,331	758,731
0032	Social work services	27,443	-	53,249	80,692
0033	Health services	211,507	-	29,061	240,568
0034	Student transportation	192,507	-	10,086	202,593
0035	Food services	41,829	-	926,761	968,590
0036	Cocurricular/extracurricular activities	917,797	-	110,337	1,028,134
0041	General administration	717,908	-	10,827	728,735
0051	Facilities maintenance and operations	2,517,734	-	20,345	2,538,079
0052	Security and monitoring services	85,339	-	1,052	86,391
0053	Data processing services	332,017	-	-	332,017
0061	Community services	-	-	529	529
0081	Capital outlay	524,108	-	-	524,108
0093	Payments to shared service arrangements	292,438	-	-	292,438
0099	Other intergovernmental charges	188,630	-	-	188,630
6030	Total expenditures	18,914,670	878,935	2,722,119	22,515,724
1100	Excess of revenues over (under) expenditures	2,589,924	-	194,583	2,784,507
Other Financing Sources (Uses)					
7915	Transfers in	164,056	-	-	164,056
8911	Transfers out	-	-	(164,056)	(164,056)
7080	Total other financing sources (uses)	164,056	-	(164,056)	-
1200	Net change in fund balance	2,753,980	-	30,527	2,784,507
0100	Fund balances - beginning, as originally stated	11,680,799	-	38,224	11,719,023
1300	Prior period adjustment	-	-	136,692	136,692
	Fund balances - beginning, as restated	11,680,799	-	174,916	11,855,715
3000	Fund balances - ending	\$ 14,434,779	\$ -	\$ 205,443	\$ 14,640,222

See accompanying notes to the basic financial statements.



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

Net change in fund balances - total governmental funds (Exhibit C-2) \$ 2,784,507

Amounts reported for *governmental activities* in the Statement of Activities (Exhibit B-1) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The net difference between the two is as follows:

Capital outlay during the year	\$ 792,202	
Depreciation expense for the year	944,199	(151,997)

Because property tax receivables will not be collected for several months after the District's fiscal year ends, they are not considered 'available' revenues and are deferred in the governmental funds. Deferred inflows changed by this amount this year. (45,178)

The District participates in a defined benefit pension plan. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, pension expenses are recognized on an actuarial basis. Payments were less than the actuarial expense in the current year. (295,533)

The District participates in an OPEB plan through TRS. Contributions to the plan are expenditures at the fund level when payments are due. At the government-wide level, OPEB expenses are recognized on an actuarial basis. Payments were more than the actuarial expense in the current year. 288,123

An internal service fund is used by management to charge the costs of worker's compensation claims to the individual funds. The change in net position of the internal service fund is reported with governmental activities. 2,534

Change in net position of governmental activities (Exhibit B-1) \$ 2,582,456

*See accompanying notes to the basic financial statements.*

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUND**  
**AUGUST 31, 2021**

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Fund</u>
<b>Assets</b>		
Current assets:		
1110	Cash and cash equivalents	\$ 281,846
	Total current assets	<u>281,846</u>
1000	Total assets	<u>281,846</u>
<b>Liabilities</b>		
Current liabilities:		
2110	Accounts payable	62,312
2170	Due to other funds	<u>24,642</u>
	Total current liabilities	<u>86,954</u>
2000	Total liabilities	<u>86,954</u>
<b>Net Position</b>		
3900	Unrestricted	<u>194,892</u>
3000	Total net position	<u>\$ 194,892</u>

*See accompanying notes to the basic financial statements.*

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION - INTERNAL SERVICE FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Fund</u>
	Operating revenues:	
5700	Local and Intermediate Sources	\$ 50,853
5020	Total operating revenues	<u>50,853</u>
	Operating expenses:	
6200	Professional and contractual services	24,709
6400	Other operating costs	<u>28,239</u>
6030	Total operating expenses	<u>52,948</u>
	Operating loss	<u>(2,095)</u>
	Nonoperating income:	
7955	Earnings from temporary deposits and investments	<u>4,629</u>
8030	Total nonoperating income	<u>4,629</u>
1300	Change in net position	2,534
0100	Net position - beginning	<u>192,358</u>
3300	Net position - ending	<u>\$ 194,892</u>

*See accompanying notes to the basic financial statements.*

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

	Governmental Activities Internal Service Fund
Cash flows from operating activities:	
Cash received from quasi-external transactions	\$ 50,853
Cash payments for claims	(13,615)
Cash payments to suppliers for goods and services	(67)
Net cash provided by operating activities	<u>37,171</u>
Cash flows from investing activities:	
Interest on investments	<u>4,629</u>
Net cash provided by investing activities	<u>4,629</u>
Net Increase in Cash and Cash Equivalents	41,800
Cash and Cash Equivalents - Beginning	<u>240,046</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 281,846</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (2,095)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Increase (decrease) in liabilities:	
Accounts payable	14,624
Due to other funds	24,642
Total adjustments	<u>39,266</u>
Net cash provided by operating activities	<u><u>\$ 37,171</u></u>

*See accompanying notes to the basic financial statements.*

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**AUGUST 31, 2021**

Data Control Codes		Private-Purpose Trust Funds	Custodial Funds
			Student Activity
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 209,668	\$ 31,764
1000	Total assets	209,668	31,764
	<b>Liabilities</b>		
	Current Liabilities:		
2110	Accounts payable	-	-
2000	Total liabilities	-	-
	<b>Net Position</b>		
3800	Held in trust	209,668	31,764
3000	Total net position	\$ 209,668	\$ 31,764

*See accompanying notes to the basic financial statements.*

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

	Private-Purpose Trust Funds	Custodial Funds Student Activity
<b>Additions:</b>		
Investment income	\$ 3,672	\$ -
Student activities	-	71,472
Total additions	<u>3,672</u>	<u>71,472</u>
<b>Deductions:</b>		
Scholarship awards	2,402	-
Student activities	-	64,639
Total deductions	<u>2,402</u>	<u>64,639</u>
<b>Change in net position</b>	<u>1,270</u>	<u>6,833</u>
Net position-beginning of the year, as originally stated	208,398	-
Prior period adjustment	-	24,931
Net position-beginning of the year, as restated	<u>208,398</u>	<u>24,931</u>
Net position-end of the year	<u>\$ 209,668</u>	<u>\$ 31,764</u>

*See accompanying notes to the basic financial statements.*

# **VERNON INDEPENDENT SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED AUGUST 31, 2021**

### **A. Summary of Significant Accounting Policies**

The basic financial statements of Vernon Independent School District (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.

#### **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.

**ESSER III Fund:** This is a federal special revenue fund funded through TEA for relief under the American Rescue Plan (ARP) Act.

In addition, the District reports the following fund types:

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED AUGUST 31, 2021**

#### **Governmental Funds:**

**Special Revenue Funds:** The District accounts for activities funded with restricted or committed revenues in special revenue funds. Most federal and some state grant programs are accounted for in these funds.

#### **Proprietary Fund:**

**Internal Service Fund:** This fund is used to account for revenues and expenses related to self-funded workers' compensation services provided to parties inside the District. This fund facilitates distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

The Internal Service Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Internal Service Fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Fiduciary Funds:**

**Private-Purpose Trust Funds:** The District accounts for donations for which the donor stipulated that both the principal and income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds include the King Educational Foundation Scholarship, the Fulton Scholarship, the Louis Boynton Athletic Scholarship, and the M.I. Keefe Home Economics Scholarship.

**Custodial Funds:** These funds are used to report student activity funds held in a purely custodial capacity. Custodial funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. These funds are reported in the fiduciary fund financial statements. Because their assets are held in a trustee or custodial capacity and are, therefore, not available to support District programs, these funds are not included in the government-wide statements.

#### **b. Measurement Focus, Basis of Accounting**

**Government-wide, Proprietary, 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 considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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 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



**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

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.

**3. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash and cash equivalents if they have a maturity of three months or less when purchased.

**b. 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.

At August 31, 2021, net property taxes receivable is calculated as follows:

Gross property taxes receivable	\$600,747
Allowance for uncollectible taxes	( 223,576)
Net property taxes receivable	<u>\$377,171</u>

**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.

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

**d. Deferred Outflows/Inflows of Resources**

Deferred outflows of resources refers to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources has a positive effect on net position, similar to assets. Notwithstanding the similarities, Concepts Statement 5 clearly establishes that deferred outflows of resources are not assets.

Deferred inflows of resources refers to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources has a negative effect on net position, similar to liabilities. Notwithstanding the similarities, Concepts Statement 5 clearly establishes that deferred inflows of resources are not liabilities.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

e. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and building improvements	5 - 50 years
Furniture and equipment	5 - 20 years

f. 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, except for delinquent taxes receivable, which are not scheduled for collection within one year of year end. Of the \$600,747 outstanding at August 31, 2021, it is expected that the District will collect approximately \$150,000 during the upcoming year.

g. 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 on the government-wide statement of net position.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

The amount of Foundation revenues a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is reasonably possible that Foundation revenue estimates as of August 31, 2021 will change.

i. 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.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

j. 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 (passage of resolution) 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 the 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. At August 31, 2021, the Board of Trustees have committed fund balances of \$142,448 for campus activities in other governmental funds and as follows for the general fund:

	<u>General Fund</u>
Construction	\$3,000,000
Capital expenditures for equipment	1,250,000
Other - major maintenance projects	<u>1,250,000</u>
	<u>\$5,500,000</u>

**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. Per the fiscal management policies adopted by the Board of Trustees, the Board of Trustees, Superintendent and Chief Financial Officer are authorized to assign amounts for specific purposes. Specific amounts that are not restricted or committed in a special revenue, capital projects, or debt service 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 conveys 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. Only the General Fund 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.

k. Fund Balance Flow Assumptions

The District will sometimes 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, 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, and then, finally, unassigned fund balance.

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED AUGUST 31, 2021**

**l. Net Position Flow Assumptions**

Consistent with the aforementioned policy for fund balance flow assumptions, the District considers amounts to have been spent first out of restricted net position when an expense is incurred for which restricted and unrestricted net position are available.

**m. Pension**

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.

**n. Other Post-Employment Benefits**

The fiduciary net position of the TRS's 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.

**o. New Accounting Standard Adopted**

For fiscal year 2021, the District implemented GASB Statement No. 84, "Fiduciary Activities". GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds in its fiduciary financial statements. The District reviewed its agency funds for classification under GASB No. 84 and determined that the funds included campus activity funds that should be reported in the District's financial resources as a special revenue fund and student activity funds that will be reported in the new fiduciary classification of custodial funds. This reclassification resulted in the restatement of the District's fund level, government-wide, and fiduciary financial statements.

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

The District had no violations of finance-related legal and contractual provisions for the year ended August 31, 2021 except for the over-expended budgeted amounts in the General Fund in facilities acquisition and construction by \$215,408.

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

The District does not have any funds with a deficit fund balance or deficit net position.

## VERNON INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2021

#### 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 August 31, 2021, the carrying amount of the District's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$13,434,425 and the bank balance was \$13,888,416, excluding the fiduciary accounts. The District's cash deposits at August 31, 2021, and during the year ended August 31, 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 August 31, 2021, are shown below.

<u>Investment or Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Money market	1	\$2,500,045
Lone Star Investment Pool	45	<u>1,349,955</u>
		<u>\$3,850,000</u>

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

## VERNON INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2021

The District values its money market savings balances based on their bank statements while all investment pools are valued at net asset value per unit/share.

#### 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 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 participates in the following public funds investment pool:

#### Lone Star Investment Pool

The Lone Star Investment Pool (Lone Star) is a local government investment pool organized 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. 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 AAAM by Standard and Poor's. Lone Star has three different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Each fund seeks to maintain a net asset value of \$1.00 per unit. The District is invested in the Government Overnight Fund.

### 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:

#### a. 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.

#### b. 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.

#### c. 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.



**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

d. 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.

e. 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.

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 charges. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 582,374	\$ -	\$ -	\$ 582,374
Construction in progress	-	408,000	-	408,000
Total capital assets not being depreciated	582,374	408,000	-	990,374
Capital assets being depreciated:				
Buildings and improvements	26,962,363	116,108	-	27,078,471
Furniture and equipment	4,853,725	268,094	-	5,121,819
Total capital assets being depreciated	31,816,088	384,202	-	32,200,290
Less accumulated depreciation for:				
Buildings and improvements	16,046,523	639,546	-	16,686,069
Furniture and equipment	3,541,402	304,653	-	3,846,055
Total accumulated depreciation	19,587,925	944,199	-	20,532,124
Total capital assets being depreciated, net	12,228,163	( 559,997)	-	11,668,166
Governmental activities capital assets, net	\$12,810,537	(\$151,997)	\$ -	\$12,658,540

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$550,512
Instructional Resources and Media Services	7,752
Curriculum and Staff Development	11,704
Instructional Leadership	13,649
School Leadership	54,290
Guidance, Counseling, & Evaluation Services	33,725
Social Work Services	3,587
Health Services	10,693
Student Transportation	9,005
Food Services	43,053
Extracurricular Activities	44,431
General Administration	32,391
Plant Maintenance and Operations	112,083
Security and Monitoring Services	2,542
Data Processing Services	14,758
Community Services	<u>24</u>
Total governmental activities depreciation	<u>\$944,199</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	ESSER III Fund	\$722,008	Short-term borrowing
General Fund	Other Governmental Funds	232,548	Short-term borrowing
General Fund	Internal Service Fund	24,642	Short-term borrowing
Other Governmental Funds	General Fund	<u>35</u>	Short-term borrowing
		<u>\$979,233</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Balances transferred to and from other funds during the year ended August 31, 2021, consisted of the followings:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Purpose</u>
Other Governmental Funds	General Fund	<u>\$ 164,056</u>	Reimburse costs

F. 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.

The District has elected to participate in a self-insurance plan for workers' compensation benefits. The plan is authorized by Section 504.011 of the Labor Code. Claims Administrative Services, Inc. acts as third-party administrator of the Texas Educational Insurance Association.



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**G. Defined Benefit Pension Plan**

**1. Plan Description**

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

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

**2. Pension Plan Fiduciary Net Position**

Detailed information about the TRS'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 at [https://www.trs.texas.gov/Pages/about\\_publications.aspx](https://www.trs.texas.gov/Pages/about_publications.aspx); by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512) 542-6592.

**3. 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 a 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 the date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic cost of living adjustments (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 a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by the System's actuary.

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

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**4. 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 6.0% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

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

	<u>Contribution Rates</u>	
	<u>2020</u>	<u>2021</u>
Members (Employees)	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	7.5%
Employer (District)	7.5%	7.5%
Members (Employees)	\$923,693	\$944,142
Non-Employer Contributing Entity (State)	\$761,522	\$770,289
Employer (District)	\$336,683	\$349,609

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 employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

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

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

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**5. Actuarial Assumptions**

The total 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 Investment Rate of Return	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 Including Inflation	3.05% to 9.05%
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2019.

**6. Discount Rate**

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

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

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

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<u>Asset Class</u>	<u>Target Allocation % <sup>(1)</sup></u>	<u>Long-term Expected Geometric Real Rate of Return <sup>(2)</sup></u>	<u>Expected Contribution to Long-term Portfolio Returns</u>
<b>Global Equity</b>			
USA	18.0%	3.9%	0.99%
Non-U.S. Developed	13.0%	5.1%	0.92%
Emerging Markets	9.0%	5.6%	0.83%
Private Equity	14.0%	6.7%	1.41%
<b>Stable Value</b>			
Government Bonds <sup>(3)</sup>	16.0%	-0.7%	-0.05%
Absolute Return (Including Credit Sensitive Investments)	--	1.8%	--
Stable Value Hedge Funds	5.0%	1.9%	0.11%
<b>Real Return</b>			
Real Estate	15.0%	4.6%	1.02%
Energy, Natural Resources and Infrastructure	6.0%	6.0%	0.42%
Commodities	--	0.8%	--
<b>Risk Parity</b>			
Risk Parity	8.0%	3.0%	0.30%
<b>Asset Allocation Leverage</b>			
Cash	2.0%	-1.5%	-0.03%
Asset Allocation Leverage	-6.0%	-1.3%	0.08%
Inflation Expectation			2.00%
Volatility Drag <sup>(3)</sup>			<u>-0.67%</u>
<b>Expected Return</b>	<u>100.00%</u>		<u>7.33%</u>

<sup>(1)</sup> Target allocations are based on the FY 2020 policy model.

<sup>(2)</sup> Capital Market Assumptions come from Aon Hewitt (as of 08/31/2020).

<sup>(3)</sup> The volatility drag results from the conversion between arithmetic and geometric mean returns.

**7. 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 percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	<u>1% Decrease 6.25%</u>	<u>Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	<u>\$6,857,006</u>	<u>\$4,446,878</u>	<u>\$2,488,701</u>

**8. Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions**

At August 31, 2021, the District reported a liability of \$4,446,878 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for the State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

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District's proportionate share of the collective net pension liability	\$ 4,446,878
State's proportionate share that is associated with the District	<u>9,581,608</u>
Total	<u>\$14,028,486</u>

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

At August 31, 2020, the District's proportion of the collective net pension liability was 0.0083029261%, which was a decrease of .0008748721% 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 August 31, 2021, the District recognized pension expense of \$1,152,455 and revenue of \$738,152 for support provided by the State.

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

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual economic experience	\$ 8,120	\$ 124,101
Changes in actuarial assumptions	1,031,834	438,729
Difference between projected and actual investment earnings	90,023	-
Changes in proportion and difference between District contributions and proportionate share of contributions	182,185	576,318
Contributions paid to TRS subsequent to the measurement date	<u>349,609</u>	<u>-</u>
Total	<u>\$1,661,771</u>	<u>\$1,139,148</u>

\$349,609 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the plan year ending August 31, 2021. The remaining amounts of the District's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended August 31</u>	<u>Pension Exp. Amount</u>
2021	\$120,283
2022	108,087
2023	109,019
2024	( 34,033)
2025	( 111,317)
Thereafter	( 19,025)

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H. Defined Other Post-Employment Benefit Plans

1. Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The 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.

2. OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care'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 at [https://www.trs.texas.gov/Pages/about\\_publications.aspx](https://www.trs.texas.gov/Pages/about_publications.aspx); by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

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

Eligible 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

4. 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.

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Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2020</u>	<u>2021</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers (District)	0.75%	0.75%
Federal/private funding remitted by Employers	1.25%	1.25%
Employer Contributions	\$109,205	\$112,185
Member Contributions	\$ 89,970	\$ 91,962
NECE On-behalf Contributions	\$149,950	\$143,746

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

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

**5. Actuarial Assumptions**

The actuarial valuation was performed as of August 31, 2019. Update procedures were used to roll forward the total OPEB liability to August 31, 2020.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the 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	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates 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).



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**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	2.33% as of August 31, 2020
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% after age 65. 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.
Projected Salary Increases	3.05% to 9.05%, including inflation
Healthcare Trend Rates	9.00% for Medicare retirees and 7.30% for non-Medicare retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.
Ad hoc post-employment benefit changes	None

**6. Discount Rate**

A single discount rate of 2.33% was used to measure the total OPEB liability. There was a decrease of .30% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

**7. Discount Rate Sensitivity Analysis**

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

	1% Decrease 1.33%	Current Discount Rate 2.33%	1% Increase 3.33%
District's proportionate share of the net OPEB liability	<u>\$6,607,363</u>	<u>\$5,506,147</u>	<u>\$4,636,343</u>



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The following schedule presents the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed healthcare cost trend rate is used:

	1% Decrease 6.3% - 8.00%	Healthcare Cost Trend Rate 7.3% - 9.00%	1% Increase 8.3% - 10.00%
District's proportionate share of the current healthcare cost trend rate	<u>\$4,497,816</u>	<u>\$5,506,147</u>	<u>\$6,849,100</u>

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows and Inflows of Resources Related to OPEBs

At August 31, 2021, the District reported a liability of \$5,506,147 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for the 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	\$ 5,506,147
State's proportionate share that is associated with the District	<u>7,398,941</u>
Total	<u>\$12,905,088</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 District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2019 through August 31, 2020.

At August 31, 2021, the District's proportion of the collective net OPEB liability was 0.0144843263%, compared to 0.0151284334% as of August 31, 2020.

Changes Since the Prior Actuarial Valuation

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

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

Changes of Benefit Terms Since the Prior Measurement Date

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

The amount of OPEB expense recognized by the District in the reporting period was (\$175,042).

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

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	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual economic experience	\$288,300	\$2,519,894
Changes in actuarial assumptions	339,615	1,512,016
Difference between projected and actual investment earnings	1,790	-
Changes in proportion and difference between District contributions and proportionate share of contributions	15	689,035
Contributions paid to TRS subsequent to the measurement date	<u>112,185</u>	<u>-</u>
Total	<u>\$741,905</u>	<u>\$4,720,945</u>

\$112,185 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the plan year ending August 31, 2021. The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended August 31</u>	<u>OPEB Expense Amount</u>	<u>Balance of Deferred Outflows (Deferred Inflows)</u>
2021	(\$664,669)	(\$3,426,556)
2022	( 664,908)	( 2,761,648)
2023	( 665,045)	( 2,096,603)
2024	( 665,012)	( 1,431,591)
2025	( 517,939)	( 913,652)
Thereafter	( 913,652)	-

For the year ended August 31, 2021, the District recognized OPEB expense of (\$51,375) and revenue of \$147,934 for support provided by the State.

9. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$54,851, \$50,908, and \$45,242 for the years ended August 31, 2021, 2020, and 2019, respectively.

I. Commitments and Contingencies

1. Contingencies

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

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2. Litigation

No reportable litigation was pending against the District as of August 31, 2021.

3. Construction Commitments

As of August 31, 2021, the District was party to several uncompleted contracts for the construction of a new elementary school, additions and remodeling to the high school and security cameras. The total amount of those contracts, portions completed through August 31, 2021, and remaining commitments as of August 31, 2021, are summarized as follows:

Total contract sum - all projects	\$2,119,335
Portions completed through August 31, 2021	( 408,000)
Total remaining commitments as of August 31, 2021	<u>\$1,711,335</u>

It is anticipated that the above projects will not be completed during the fiscal year ended August 31, 2022.

J. Worker's Compensation Coverage

The District, along with many other Texas school districts, participates in a self-insurance plan for worker's compensation benefits as authorized by Section 504.011 of the Labor Code. Hibbs-Hallmark & Company / Claims Administrative Services acts as the third-party administrator of the West Texas Educational Insurance Association (Pool).

The total charge made by the Internal Service Fund to the funds is based on rates as determined by the District and will be adjusted over time so that the Internal Service Fund revenues and expenses are approximately equal. These costs are reported as interfund transactions and are treated as operating revenues in the Internal Service Fund and as operating expenditures in the other funds.

Claims are paid by the third-party administrator acting on behalf of the District under the terms of the contractual agreement. Administrative fees are included within the provisions of that agreement. According to the state statute, the District is protected against unanticipated claims and aggregate loss by coverage carried through Safety National Casualty Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Coverage was in effect for aggregate claims in excess of \$5 million and for specific occurrences exceeding \$1,000,000. The Pool participants are responsible for amounts up to the limit; however, the District loss fund maximum was \$97,435 for the year ended August 31, 2021.

As of August 31, 2021, the worker's compensation benefit obligation consisted of \$62,312 in reported unpaid claims and estimated incurred but not reported claims. These amounts represent estimated ultimate costs to settle claims. Net position at year-end contains a balance of \$194,892. A summary of the changes in the benefit obligation is as follows:

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Balance as of September 1, 2020		\$47,688
Incurring claims/adjustments:		
Provision for insured events for 2020-21	\$34,815	
Provision for insured events for prior years	( 6,896)	
Total incurred claims/adjustments		27,919
Payments:		
Claims attributable to insured events for 2020-21	5,979	
Claims attributable to insured events for prior years	<u>7,316</u>	
Total payments		<u>13,295</u>
Balance as of August 31, 2021		<u>\$62,312</u>

K. Economic Dependency

The District's top two taxpayers' tax levy equals \$2,837,742, or approximately 33%, of the total levy for 2020-21. A significant decline in tax receipts from both or one of those entities could have a material adverse effect on the District's operations. Additionally, one of the top two taxpayers closed its plant in October 2020. As a result of this closure, the property taxes from this taxpayer declined \$417,359 in 2021-22.

L. COVID-19

Beginning in December 2019, a novel coronavirus, now designated SAR-CoV2 which causes the disease COVID-19 was declared a global pandemic by the World Health Organization. The symptoms of COVID-19 can range from severe illness and can cause complications including death. On March 13, 2020, the Governor of the State of Texas issued a proclamation certifying that COVID-19 poses an imminent threat of disaster in Texas and declared a state of disaster for all counties in Texas. A state of disaster requires that certain emergency protective measures be taken pursuant to the Texas Disaster Act of 1975 relating to Emergency Management and Public Health, pursuant to Chapter 418 of the Texas Government Code.

State and local governments placed restrictions on the operations of businesses and public gatherings to promote health and slow the spread of the virus. The federal government passed several appropriations to address the negative economic impact caused by these restrictions. The District received \$1,042,991 in federal and state grant awards during the year ended August 31, 2021. However, the impact of the COVID-19 pandemic on the national, state, and local economies and, ultimately, the District's finances is not known at this time.

M. Shared Services Arrangements

The District is the fiscal agent for a Shared Services Arrangement (SSA) which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Special Education Expenditures</u>
Harrold ISD	\$ 14,901
Northside ISD	21,421
Vernon ISD	<u>292,438</u>
Total	<u>\$328,760</u>

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

**N. Tax Abatement Agreements**

The District's Board of Trustees approved an agreement with Electra Wind, LLC, Lockett Windfarm, LLC and Western Trail Wind, LLC for limitations on appraised value of property for school district maintenance and operations taxes pursuant to Chapter 313 of the Texas Tax Code, as amended, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. The Agreement Holders qualified for a tax limitation agreement under Texas Tax Code § 313.024(b)(5), as a renewable energy electric generation project.

For the year ended August 31, 2021, the value limitation agreements had the following effect on the District's tax collections when calculated with the current fiscal year maintenance and operations tax rate of \$0.9664 per \$100.

Company	Agreement Year	Project Value	Project Value	M&O	M&O	Revenue	Supplemental Payment to District
			Limitation Amount	Taxes Paid	Taxes Reduced	Loss Payment to District	
Electra Wind, LLC	4	\$ 116,924,820	\$ 30,175,000	\$ 291,611	\$ 838,350	\$ -	\$ 208,500
Lockett Windfarm, LLC	1	\$ 206,500,000	\$ 30,000,000	\$ 289,920	\$ 1,705,696	\$ 1,862,396	\$ 188,200
Western Trail Wind, LLC	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 184,400

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

**O. Prior Period Adjustments**

During fiscal year 2021, the District adopted GASB Statement No. 84, Fiduciary Activities. Prior to the implementation of GASB 84, the District's student activity funds were reported only in a statement of fiduciary assets and liabilities. After the implementation of GASB 84, the District's student activity funds are reported as custodial funds in a statement of fiduciary net position and in a statement of changes in fiduciary net position. The effect of reporting campus activity funds as governmental funds is an increase to beginning net position for governmental activities and to beginning fund balance of other governmental funds by \$136,692. The effect of reporting student activity funds as custodial funds is an increase to beginning net position of \$24,931 for custodial funds – student activity funds.

**P. Subsequent Event**

On November 2, 201, the District's taxpayers approved a \$40 million bond for the construction of a new 2-5 grade elementary school, add a new parking lot at the football stadium, and several additions and renovations to the high school.

***REQUIRED SUPPLEMENTARY INFORMATION***

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ 9,622,444	\$ 11,479,624	\$ 11,473,141	\$ (6,483)
5800	State program revenues	9,867,009	10,417,009	9,734,230	(682,779)
5900	Federal program revenues	367,000	317,000	297,223	(19,777)
5020	Total revenues	19,856,453	22,213,633	21,504,594	(709,039)
	Expenditures:				
	Current:				
	Instruction & instructional related services:				
0011	Instruction	11,425,275	12,332,526	10,544,436	1,788,090
0012	Instructional resources and media services	183,438	193,438	174,398	19,040
0013	Curriculum and staff development	257,357	272,357	252,946	19,411
	Total instruction and instructional related services	11,866,070	12,798,321	10,971,780	1,826,541
	Instructional and school leadership:				
0021	Instruction leadership	234,218	234,218	210,400	23,818
0023	School leadership	1,201,577	1,251,577	1,182,833	68,744
	Total instructional and school leadership	1,435,795	1,485,795	1,393,233	92,562
	Support services - student (pupil):				
0031	Guidance, counseling and evaluation services	545,231	545,231	500,400	44,831
0032	Social work services	2,600	32,600	27,443	5,157
0033	Health services	208,587	218,587	211,507	7,080
0034	Student transportation	517,112	517,112	192,507	324,605
0035	Food services	53,600	53,600	41,829	11,771
0036	Cocurricular/extracurricular activities	1,071,923	1,138,707	917,797	220,910
	Total support services - student (pupil)	2,399,053	2,505,837	1,891,483	614,354
	Administrative support services:				
0041	General administration	837,417	837,417	717,908	119,509
	Total administrative support services	837,417	837,417	717,908	119,509
	Support services - nonstudent based:				
0051	Facilities maintenance and operations	2,638,321	3,076,089	2,517,734	558,355
0052	Security and monitoring services	93,250	93,250	85,339	7,911
0053	Data processing services	337,047	357,047	332,017	25,030
	Total support services - nonstudent based	3,068,618	3,526,386	2,935,090	591,296
	Capital outlay:				
0081	Facilities acquisition and construction	-	308,700	524,108	(215,408)
	Total capital outlay	-	308,700	524,108	(215,408)
	Intergovernmental charges:				
0093	Payments to shared service arrangements	320,000	320,000	292,438	27,562
0099	Other intergovernmental charges	190,000	190,000	188,630	1,370
	Total intergovernmental charges	510,000	510,000	481,068	28,932
6030	Total expenditures	20,116,953	21,972,456	18,914,670	3,057,786
1100	Revenues over (under) expenditures	(260,500)	241,177	2,589,924	2,348,747



**VERNON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
		Original	Final		
	Other financing sources (uses):				
7912	Proceeds from sale of capital assets	3,000	3,000	-	3,000
7915	Transfers in	257,500	257,500	164,056	93,444
7080	Total other financing sources (uses)	260,500	260,500	164,056	96,444
1200	Net change in fund balance	-	501,677	2,753,980	2,445,191
0100	Fund balance - beginning	11,680,799	11,680,799	11,680,799	-
3000	Fund balance - ending	\$ 11,680,799	\$ 12,182,476	\$ 14,434,779	\$ 2,445,191



**VERNON INDEPENDENT SCHOOL DISTRICT****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****TEACHER RETIREMENT SYSTEM OF TEXAS****YEAR ENDED AUGUST 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
District's proportion of the net pension liability	<u>0.0083029261%</u>	<u>0.0091779820%</u>	<u>0.0095312886%</u>
District's proportionate share of the net pension liability	\$ 4,446,878	\$ 4,770,906	\$ 5,246,253
State's proportionate share of the net pension liability associated with the District	<u>9,581,608</u>	<u>8,916,217</u>	<u>10,190,768</u>
Total	<u>\$ 14,028,486</u>	<u>\$ 13,687,123</u>	<u>\$ 15,437,021</u>
District's covered employee payroll	<u>\$ 11,996,016</u>	<u>\$ 11,278,768</u>	<u>\$ 11,686,411</u>
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>37.07%</u>	<u>42.30%</u>	<u>44.89%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>75.54%</u>	<u>75.24%</u>	<u>73.74%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0102321145%</u>	<u>0.0100451863%</u>	<u>0.0109532000%</u>	<u>0.0064182600%</u>
\$ 3,271,679	\$ 3,795,927	\$ 3,871,810	\$ 1,731,592
<u>6,319,814</u>	<u>7,805,718</u>	<u>7,636,626</u>	<u>6,849,722</u>
<u>\$ 9,591,493</u>	<u>\$ 11,601,645</u>	<u>\$ 11,508,436</u>	<u>\$ 8,581,314</u>
<u>\$ 11,941,156</u>	<u>\$ 11,848,651</u>	<u>\$ 11,710,319</u>	<u>\$ 11,758,938</u>
<u>27.40%</u>	<u>32.04%</u>	<u>33.06%</u>	<u>14.73%</u>
<u>82.17%</u>	<u>78.00%</u>	<u>78.43%</u>	<u>83.25%</u>

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS**  
**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**YEAR ENDED AUGUST 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 349,609	\$ 336,686	\$ 321,234
Contributions in relation to the contractually required contribution	<u>(349,609)</u>	<u>(336,686)</u>	<u>(321,234)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 11,996,016</u>	<u>\$ 11,996,016</u>	<u>\$ 11,278,768</u>
Contributions as a percentage of covered employee payroll	<u>2.91%</u>	<u>2.81%</u>	<u>2.85%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 322,717	\$ 335,349	\$ 319,161	\$ 314,244
<u>(322,717)</u>	<u>(335,349)</u>	<u>(319,161)</u>	<u>(314,244)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 11,686,411</u>	<u>\$ 11,941,156</u>	<u>\$ 11,848,651</u>	<u>\$ 11,710,319</u>
<u>2.76%</u>	<u>2.81%</u>	<u>2.69%</u>	<u>2.68%</u>

**VERNON INDEPENDENT SCHOOL DISTRICT****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY****TEACHER RETIREMENT SYSTEM OF TEXAS****YEAR ENDED AUGUST 31, 2021**

	2021	2020	2019	2018
District's proportion of the net OPEB liability	<u>0.0144843263%</u>	<u>0.0151284334%</u>	<u>0.0152340253%</u>	<u>0.0159074480%</u>
District's proportionate share of the net OPEB liability	\$ 5,506,147	\$ 7,154,423	\$ 7,606,488	\$ 6,917,552
State's proportionate share of the net OPEB liability associated with the District	<u>7,398,941</u>	<u>9,506,626</u>	<u>9,755,632</u>	<u>9,051,432</u>
Total	<u>\$ 12,905,088</u>	<u>\$ 16,661,049</u>	<u>\$ 17,362,120</u>	<u>\$ 15,968,984</u>
District's covered employee payroll (Plan year end August 31)	<u>\$ 11,996,016</u>	<u>\$ 11,278,768</u>	<u>\$ 11,686,411</u>	<u>\$ 11,941,156</u>
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	<u>45.90%</u>	<u>63.43%</u>	<u>65.09%</u>	<u>57.93%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>4.99%</u>	<u>2.66%</u>	<u>1.57%</u>	<u>0.91%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 74/75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

Note - the column label is the District's fiscal year. The data is derived from the Teacher Retirement System's Comprehensive Annual Financial Statement for the preceding year.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT'S OTHER POST EMPLOYMENT BENEFIT (OPEB) CONTRIBUTIONS**  
**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**YEAR ENDED AUGUST 31, 2021**

	2021	2020	2019	2018
Contractually required contribution	\$ 112,185	\$ 109,205	\$ 107,370	\$ 106,154
Contributions in relation to the contractually required contribution	(112,185)	(109,205)	(107,370)	(106,154)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 11,996,016	\$ 11,996,016	\$ 11,278,768	\$ 11,686,411
Contributions as a percentage of covered employee payroll	0.94%	0.91%	0.95%	0.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 74/75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

Note - the contractually required contribution is for the District's indicated fiscal year.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

**A. Budget**

**1. Basis of Budgeting**

The Vernon Independent School District's (District) budget for the General Fund is prepared and presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**2. Budget Process**

**a. Budgeting**

Annual budgets are legally adopted for the General Fund and Food Service Fund. The annual budget is presented in the accompanying schedule for the General Fund. The following procedures are used in establishing the budgetary data reflected in that schedule:

1. Prior to August 20th of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1st, the budget is legally enacted through passage of a resolution by the Board of Trustees.

The budget is prepared and controlled by the budget officer at the revenue object and expenditure function level.

The official budget for the General Fund was prepared and adopted through Board resolution before August 31, 2020. The administration performs budget reviews by which budget requirements are re-evaluated and revisions recommended to the Board. The Board may approve amendments to the budget, which are required when a change is made to the functional expenditure categories or revenue object accounts, as defined by the Texas Education Agency. Total expenditures may exceed total appropriations, as amended, by fund as long as those expenditures are certified as being available by the budget officer to the Board. The budget amounts reflected in the accompanying schedule represent final amended budget amounts as approved by the Board.

**b. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. There are no outstanding encumbrances at year-end as all encumbrances at that date are canceled and re-appropriated in the subsequent fiscal year's budget to provide for their liquidation.

**3. Expenditures Over Budgeted Amounts**

During the year ended August 31, 2021, the District over-expended budgeted amounts in the General Fund in one functional area: facilities acquisition and construction by \$215,408.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

**B. Defined Benefit Pension Plan**

**1. Change of Benefit Terms**

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**2. Changes of Assumptions**

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

**C. OPEB Plan**

**1. Change of Benefit Terms**

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

**2. Changes of Assumptions**

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

- The discount rate changed from 2.63% as of August 31, 2019 to 2.33% as of August 31, 2020. This change increased the total OPEB liability.
- The participation rate for post-65 retirees was lowered from 50% to 40%. This change lowered the total OPEB liability.
- The ultimate health care trend rate assumption was lowered from 4.5% to 4.25% as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the total OPEB liability.



## ***OTHER SUPPLEMENTARY INFORMATION SECTION***

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Fiscal Year Ending August 31,	1	2	3
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2012 and Prior Years	\$ Various	\$ Various	\$ Various
2013	1.0400	0.1100	857,389,845
2014	1.0400	0.1100	930,792,454
2015	1.0400	0.1000	1,018,996,833
2016	1.0400	0.0900	1,127,423,499
2017	1.0400	0.0700	1,105,463,787
2018	1.0400	0.0600	1,165,054,553
2019	1.0400	0.0400	879,338,232
2020	0.9700	-	881,401,546
2021 (School year under audit)	0.9664	-	883,639,691
1000 Totals			

The taxable value of \$883,639,691 was for the 2021 M&O tax levy. The District has entered into three value limitation agreements and the M&O taxable value has been reduced by \$263,249,820.

10 Beginning Balance 9/1/2020	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/2021
\$ 93,106	\$ -	\$ 3,487	\$ -	\$ (14,069)	\$ 75,550
14,819	-	747	-	(602)	13,470
18,341	-	1,021	-	(600)	16,720
21,258	-	2,082	-	(725)	18,451
29,996	-	3,763	-	(895)	25,338
44,301	-	7,051	-	(1,362)	35,888
49,561	-	14,221	-	(1,665)	33,675
55,224	-	20,534	-	(1,171)	33,519
314,764	-	94,308	-	(1,429)	219,027
-	8,571,305	8,430,058	-	(12,138)	129,109
\$ 641,370	\$ 8,571,305	\$ 8,577,272	\$ -	\$ (34,656)	\$ 600,747

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ 150,000	\$ 150,000	\$ 44,822	\$ (105,178)
5800	State program revenues	4,625	4,625	5,660	1,035
5900	Federal program revenues	860,817	860,817	914,795	53,978
5020	Total revenues	<u>1,015,442</u>	<u>1,015,442</u>	<u>965,277</u>	<u>(50,165)</u>
	Expenditures:				
	Current:				
	Support services - student (pupil):				
0035	Food services	<u>1,019,442</u>	<u>1,019,442</u>	<u>926,761</u>	<u>92,681</u>
	Total support services - student (pupil)	<u>1,019,442</u>	<u>1,019,442</u>	<u>926,761</u>	<u>92,681</u>
	Administrative support services:				
0041	General administration	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
	Total administrative support services	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
	Support services - nonstudent based:				
0051	Facilities maintenance and operations	<u>15,000</u>	<u>15,000</u>	<u>13,744</u>	<u>1,256</u>
	Total support services - nonstudent based	<u>15,000</u>	<u>15,000</u>	<u>13,744</u>	<u>1,256</u>
6030	Total expenditures	<u>1,035,442</u>	<u>1,035,442</u>	<u>940,505</u>	<u>94,937</u>
1100	Excess of revenues over (under) expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>24,772</u>	<u>44,772</u>
	Other financing sources:				
7915	Transfers in	<u>20,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
7080	Total other financing sources	<u>20,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
1200	Net change in fund balance	-	10,000	24,772	14,772
0100	Fund balance - beginning	<u>38,224</u>	<u>38,224</u>	<u>38,224</u>	<u>-</u>
3000	Fund balance - ending	<u>\$ 38,224</u>	<u>\$ 48,224</u>	<u>\$ 62,996</u>	<u>\$ 14,772</u>



## EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

1401 HOLLIDAY ST., SUITE 216 • P.O. Box 750  
WICHITA FALLS, TEXAS 76307-0750  
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA  
DAVID L. PARKMAN, CPA  
A. PAUL FLEMING, CPA

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance with Government Auditing Standards

Board of Trustees  
Vernon Independent School District  
1713 Wilbarger Street  
Vernon, Texas 76384

**Members of the Board of Trustees:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Independent School District (District) as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2022.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2021-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2021-002 and 2021-003.

## **District's Response to Findings**

The District's response to findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

Respectfully submitted,

*Edgin, Parkman, Fleming & Fleming, PC*

Edgin, Parkman, Fleming & Fleming, PC

March 7, 2022



## EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

1401 HOLLIDAY ST., SUITE 216 • P.O. Box 750  
WICHITA FALLS, TEXAS 76307-0750  
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MICHAEL D. EDGIN, CPA  
DAVID L. PARKMAN, CPA  
A. PAUL FLEMING, CPA

### Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees  
Vernon Independent School District  
1713 Wilbarger Street  
Vernon, Texas 76384

Members of the Board of Trustees:

#### **Report on Compliance for Each Major Federal Program**

We have audited Vernon Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended August 31, 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### **Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the District's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, Vernon 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 its major federal programs for the year ended August 31, 2021.

## Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major programs 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 considered to be material weaknesses. However, material weaknesses may exist that may not have been identified.

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

Respectfully submitted,



Edgin, Parkman, Fleming & Fleming, PC

March 7, 2022



# VERNON INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED AUGUST 31, 2021

### A. Summary of Auditor's Results

#### 1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None reported

Noncompliance material to the financial statements noted?   X   Yes        No

#### 2. Federal and State Awards

Internal control over major programs:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None reported

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

Any audit findings disclosed that are required to be reported under CFR Section 200.516(a)        Yes   X   No

Identification of major programs:

Child Nutrition Cluster:

School Breakfast Program	10.553
National School Lunch Program	10.555

Education Stabilization Fund:

COVID-19 – Coronavirus Response and Relief Supplemental Appropriations Act (ESSER II)	84.425D
COVID-19 – American Relief Program (ESSER III)	84.425U

Dollar threshold used to distinguish between Type A and Type B federal programs:

\$750,000

Auditee qualified as low-risk auditee?        Yes   X   No

# VERNON INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D) FOR THE YEAR ENDED AUGUST 31, 2021

### B. Financial Statement Findings

#### **Finding 2021-001 – Material Weakness in Internal Control over Financial Reporting**

##### Criteria

The District's internal control over financial reporting should ensure accurate reporting in the District's financial statements.

##### Condition

The District's financial reporting data for the year ended August 31, 2021 included amounts not recorded in accordance with U.S. GAAP. Consequently, material audit adjustments (individually and in the aggregate) were necessary to adjust the District's financial statements. The five material adjustments were (1) to reclassify transfers out from expenditures to transfers out, (2) to reclassify cash activity recorded to accounts payable, (3) to record accounts payable, (4) to recognize grant revenue earned, and (5) to reverse double recording of grant revenue receivable. In addition, the District accounting process lacked third-party review and approval of bank reconciliations and journal entries. Finally, the bank statements were not reconciled between May 2021 and December 2021.

##### Cause

The District did not adequately record and adjust its accounting records to allow the District's financial statements to conform to U.S. GAAP. The District's new business manager for fiscal year 2021 was overwhelmed and quit in August 2021.

##### Effect

Material audit entries were required for the District's financial statements to be reported in accordance with U.S. GAAP.

##### Recommendation

We recommend that the District continue to improve its financial reporting process to ensure that bank statements are reconciled timely, a process for third-party review of transactions and reconciliations are performed and all material adjustments are recorded so the District's financial statements are reported in accordance with generally accepted accounting principles.

##### View of Responsible Officials and Planned Corrective Actions

The District will continue to improve upon its financial reporting process to ensure that bank statements are reconciled timely, transactions and reconciliations are reviewed by a third-party and that all financial statement elements are reported in the District's financial statements.

Jeff Byrd, Superintendent, is the person responsible for implementing this plan.

#### **Finding 2021-002 – Material Noncompliance – Over-Expended Budget**

##### Criteria

The District's Board of Trustees is required to formally adopt a budget for the General Fund before the beginning of the fiscal year and amend the budget as necessary during the year to ensure that adequate funds are budgeted in total and by functional category for actual expenditures.

# VERNON INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND RESPONSES (CONT'D.) FOR THE YEAR ENDED AUGUST 31, 2021

### Condition

During our audit, we noted that the District over-expended the facilities acquisition and construction functional expenditure category of its general fund budget.

### Cause

An audit adjustment for unrecorded accounts payable increased the facilities acquisition and construction functional expenditures above the final amended budgeted amount.

### Effect

The District's actual expenditures for facilities acquisition and construction were greater than the amount budgeted.

### Recommendation

We recommend that the District amend its budget as necessary during the year to ensure that it does not over-expend the budget.

### View of Responsible Officials and Planned Corrective Actions

The District will amend its budget as necessary during the year to ensure that it does not over-expend the budget.

Jeff Byrd, Superintendent, is the person responsible for implementing this plan.

### **Finding 2021-003 – Material Noncompliance – Late Filing of Audit**

#### Criteria

The Texas Administrative Code Title 19, Part 2, Chapter 109, Subchapter B, Rule 109.23 requires the District to submit its audited annual financial report (AFR) to the Texas Education Agency (TEA) no later than 150 days after the close of the District's fiscal year (January 28).

#### Condition

The District's fiscal year 2021 audit was not completed until after 150 days of its fiscal year close. Therefore, the District did not submit the report to TEA by the required date.

#### Cause

The District's business manager quit in August 2021 and the District hired a third-party to help complete and correct several months of activity and reconciliations before the District's audit could be performed.

#### Effect

The District did not submit its AFR to TEA within 150 days of its fiscal year close.

# VERNON INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND RESPONSES (CONT'D.) FOR THE YEAR ENDED AUGUST 31, 2021

### Recommendation

We recommend that the District record and reconcile its activity in a timely manner to ensure that its audit can be completed and its AFR submitted to TEA within 150 days of its fiscal year close.

### View of Responsible Officials and Planned Corrective Actions

The District will record and reconcile its activity in a timely manner to ensure that its audit can be completed and its AFR submitted to TEA within 150 days of its fiscal year close.

Jeff Byrd, Superintendent, is the person responsible for implementing this plan.

### C. Federal/State Award Findings and Questioned Costs

None

# *Vernon Independent School District*



**JEFF BYRD, *Superintendent***

**DR. HOPE APPEL, *Assistant Superintendent for Curriculum & Instruction***

## **Audit Corrective Action Plan Year Ended August 31, 2021**

### Finding 2021-001

The District will continue to improve upon its financial reporting process to ensure that bank statements are reconciled timely, transactions and reconciliations are reviewed by a third-party and that all financial statement elements are reported in the District's financial statements.

The contact person for this corrective action plan is Jeff Byrd, Superintendent.

### Finding 2021-002

The District will amend its budget as necessary during the year to ensure that it does not over-expend the budget.

The contact person for this corrective action plan is Jeff Byrd, Superintendent.

### Finding 2021-003

The District will record and reconcile its activity in a timely manner to ensure that its audit can be completed and its AFR submitted to TEA within 150 days of its fiscal year close.

The contact person for this corrective action plan is Jeff Byrd, Superintendent.

# VERNON INDEPENDENT SCHOOL DISTRICT

## Summary Schedule of Prior Audit Findings Year Ended August 31, 2021

### Finding 2020-001 – Material Weakness in Internal Control over Financial Reporting

In the prior year, material adjustments were required to adjust the District's financial reporting data to be in accordance with generally accepted accounting principles. As described in the current year finding 2021-001, material adjustments were required to adjust the District's financial reporting data to be in accordance with generally accepted accounting principles in the current year.

### Finding 2020-002 – Significant Deficiencies in Internal Control over Financial Reporting

In the prior year, the District's accounting process allowed for an individual to handle the entire process without review or oversight relative to the accounts payable process, the initial payroll set up, and preparation of journal entries. As described in the current year finding 2021-001, there was a lack of third-party review and approval in the current year.

**VERNON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures and Indirect Costs	Amount Relating to Pass-Through to Subrecipients
<u>U.S. Department of Agriculture</u>				
Child Nutrition Cluster:				
Passed Through Texas Department of Agriculture:				
National School Lunch Program (Non-cash)	10 555	244-903	\$ 61,902	\$ -
Total Passed Through Texas Department of Agriculture			61,902	-
Passed Through State Department of Education:				
School Breakfast Program	10.553	71402001	255,671	-
National School Lunch Program	10 555	71302001	597,222	-
Total Passed Through State Department of Education			852,893	-
Total Child Nutrition Cluster			914,795	-
Total U.S. Department of Agriculture			914,795	-
<u>U.S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010A	20610101244903	21,939	-
ESEA Title I Part A - Improving Basic Programs	84.010A	21610101244903	364,130	-
Total CFDA 84.010A			386,069	-
Special Education Cluster:				
SSA - IDEA-B - Part B, Formula	84.027	206600012449036000	563,691	-
SSA - IDEA-B - Part B, Formula	84.027	216600012449036000	32,853	-
Total CFDA 84.027			596,544	-
SSA - IDEA-B - Part B, Preschool	84.173	206610012449036000	15,456	-
SSA - IDEA-B - Part B, Preschool	84.173	216610012449036000	1,895	-
Total CFDA 84.173			17,351	-
Total Special Education Cluster			613,895	-
Carl Perkins Basic Formula	84.048A	20420006244903	19,158	-
Title V, Part B: Rural and Low-Income School Program	84.358B	20696001244903	3,657	-
Title V, Part B: Rural and Low-Income School Program	84.358B	21696001244903	29,676	-
Total CFDA 84.358B			33,333	-
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367	30694501244903	58,182	-
Instructional Continuity	84.377A	17610740244903	18,000	-
Title IV, Part A, Subpart 1	84.424A	20880101244903	27,241	-
Title IV, Part A, Subpart 1	84.424A	21680101244903	9,406	-
Total CFDA 84.424A			36,647	-
COVID-19 - Coronavirus Response and Relief Supplemental Appropriations Act (ESSER II)	84.425D	52102135	164,056	-
COVID-19 - American Relief Program (ESSER III)	84.425U	21528001244903	878,935	-
Total CFDA 84.425D and 84.425U			1,042,991	-
Total Passed Through State Department of Education			2,208,275	-
Total U.S. Department of Education			2,208,275	-
<u>U.S. Department of Health and Human Services</u>				
Passed Through Texas Health and Human Services Commission:				
Medicaid Administrative Claiming - MAC	93.778	HHS0000537900269	29,061	-
Total U.S. Department of Health and Human Services			29,061	-
Total Expenditures of Federal Awards			\$ 3,152,131	\$ -

The accompanying notes are an integral part of this schedule.

## **VERNON INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2021**

#### **A. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of Vernon Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

#### **B. Reconciliation of Federal Expenditures per the SEFA to the Basic Financial Statements**

Amount of federal revenues per Exhibit C-2	\$3,449,354
Less Medicaid reimbursements not considered to be federal awards for inclusion on the Schedule of Expenditures of Federal Awards	( 297,223)
Total expenditures of federal awards per the Schedule of Expenditures of Federal Awards	<u>\$3,152,131</u>

#### **C. De Minimis Indirect Cost Rate**

Entities that receive federal awards for which an indirect cost rate has never been negotiated may elect to charge a de minimis indirect cost rate of ten percent of modified total direct costs. The District did not elect to charge the de minimis rate to any of its federal awards during the year ended August 31, 2021.



**VERNON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL**  
**FIRST INDICATORS (UNAUDITED)**  
**FOR THE YEAR ENDED AUGUST 31, 2021**

<u>Data Control Codes</u>	<u>Responses</u>
SF1 Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3 Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF4 Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	Yes
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?	Yes
SF7 Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8 Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9 Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ -

**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINION**

**Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

**VERNON INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022**

**IN THE AGGREGATE PRINCIPAL AMOUNT OF \$37,530,000**

---

**AS BOND COUNSEL** for the Vernon Independent School District (the "*Issuer*"), the issuer of the Bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including executed Bond Numbered T-1.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.



**IN EXPRESSING THE AFOREMENTIONED OPINIONS**, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. We express no opinion as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within the Issuer. 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.

Respectfully,

