

OFFICIAL STATEMENT
Dated July 14, 2022

NEW ISSUE – BOOK ENTRY ONLY

Enhanced/Unenhanced Ratings:
Moody's: "Aaa" / "A1"
PSF: "Guaranteed"

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

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



\$39,455,000
PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bowie County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

Dated Date: August 1, 2022

Due: February 15, as shown on page ii herein

Interest to Accrue from Date of Delivery (defined below)

AUTHORITY FOR ISSUANCE AND SECURITY ... The Pleasant Grove Independent School District Unlimited Tax School Building Bonds, Series 2022 (the "Bonds") are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the Pleasant Grove Independent School District (the "District") on May 7, 2022 (the "Election"), and a bond order (the "Bond Order") was adopted by the Board of Trustees of the District on July 14, 2022. The Bonds are direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS - Authority for Issuance"). The District has applied for and 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.

PAYMENT TERMS ... Interest on the Bonds will accrue from their date of initial delivery (detailed 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 U.S. Bank Trust Company, National Association, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE ... Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities. See "PLAN OF FINANCING – Sources and Uses of Funds" herein.

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

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser of the Bonds (the "Initial Purchaser") and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Cantu Harden LLP, San Antonio, Texas, and Walsh, Gallegos, Treviño, Kyle, & Robinson P.C., San Antonio, TX, Co-Bond Counsel (see "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINIONS" hereto). It is expected that the Bonds will be available for delivery through DTC about August 11, 2022 (the "Date of Delivery").

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

\$39,455,000
PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bowie County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2022

CUSIP No. Prefix 728292⁽¹⁾

Maturity Date (2/15)	Principal (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽¹⁾
2032	50,000.00	5.000	2.600	KC6
2033	250,000.00	5.000	2.700 ⁽³⁾	KD4
2034	675,000.00	5.000	2.800 ⁽³⁾	KE2
2035	700,000.00	5.000	2.850 ⁽³⁾	KF9
2036	725,000.00	5.000	2.900 ⁽³⁾	KG7
2037	750,000.00	5.000	2.950 ⁽³⁾	KH5
2038	775,000.00	5.000	2.950 ⁽³⁾	KJ1
2039	400,000.00	5.000	3.000 ⁽³⁾	KK8
2040	425,000.00	5.000	3.050 ⁽³⁾	KL6
2041	450,000.00	5.000	3.100 ⁽³⁾	KM4
2042	475,000.00	5.000	3.150 ⁽³⁾	KN2
2043	500,000.00	5.000	3.200 ⁽³⁾	KP7

\$9,690,000.00 at 5.000% Term Bond, due February 15, 2046, Priced to yield 3.300% CUSIP No. Suffix: KS1

\$11,090,000.00 at 4.000% Term Bond, due February 15, 2049, Priced to yield 4.046% CUSIP No. Suffix: KV4

\$12,500,000.00 at 4.000% Term Bond, due February 15, 2052, Priced to yield 4.073% CUSIP No. Suffix: KY8

(Interest to accrue from the initial Date of Delivery)

The District reserves the option to redeem the Bonds maturing on and after February 15, 2033 in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2032, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. (See "The Bonds - Redemption Provisions of the Bond- Optimal Redemption" herein.) In addition, the Term Bonds (defined herein) are also subject to mandatory sinking fund redemption. (See "The Bonds- Redemption Provisions of the Bonds- Mandatory Sinking Fund Redemption" herein.)

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Purchaser, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

⁽³⁾ Priced to first optional redemption date of February 15, 2032.

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
8500 North Kings Hwy
Texarkana, Texas 75503**

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Ross Sarine	President	November 2023	Tatum Excavating Company, Inc.
Kathleen Young	Vice President	November 2025	Community Volunteer
Lorie Son	Secretary	November 2025	Williams Memorial Day School
Mark Addington	Member	November 2025	Dentist
Chris Barker	Member	November 2025	Texas Department of Public Safety
Brandy Eldridge	Member	November 2023	Children's Advocate
Amy Damron	Member	November 2025	Stifel

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Chad Pirtle	Superintendent of Schools
Derick Sibley	Director of Finance

CONSULTANTS AND ADVISORS

Co-Bond Counsel	Cantu Harden LLP, San Antonio, Texas
Co-Bond Counsel	Walsh, Gallegos, Treviño, Kyle, & Robinson, P.C., San Antonio, Texas
Financial Advisor	Live Oak Public Finance, LLC, Austin, Texas
Auditors	Wilf & Henderson, P.C. Texarkana, Texas

For Additional Information Contact:

Chad Pirtle
Superintendent of Schools
Pleasant Grove Independent School District
8500 North Kings Hwy
Texarkana, Texas 75503
(903) 831-4086
cpirtle@pgisd.net

Lucas Janda
Live Oak Public Finance, LLC
1515 S. Capital of Texas Hwy, Suite 206
Austin, Texas 78746
(512) 726-5547
ljanda@liveoakpf.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "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 Financial Advisor provided the following sentence for inclusion in this Official Statement. The Financial Advisor reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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

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

Neither the District or Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of TEA described under the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", as such information has been provided by DTC and TEA, respectively.

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The Pleasant Grove Independent School District (the “District”) is a political subdivision located in Bowie County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Board trustees serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. The District is primarily located within the unincorporated area of Pleasant Grove, which is located in the City of Texarkana. The District serves as estimated population of 13,217.
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the “Financing Act”), an election held in the District on May 7, 2022, and the Bond Order was adopted by the Board on July 14, 2022.
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see “PLAN OF FINANCING – Description of the Bonds”).
DATED DATE	August 1, 2022.
PAYMENT OF INTEREST ..	Interest on the Bonds will accrue from the date of delivery and will be payable until stated maturity or prior to redemption on February 15 and August 15 of each year, commencing February 15, 2023 (see “THE BONDS – Description of the Bonds”).
REDEMPTION	The District reserves the option to redeem the Bonds maturing on and after February 15, 2033 in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2032, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. (See “The Bonds0 Redemption Provisions of the Bond- Optimal Redemption” herein.) In addition, the Term Bonds (defined herein) are also subject to mandatory sinking fund redemption. (See “The Bonds- Redemption Provisions of the Bonds- Mandatory Sinking Fund Redemption” herein.)
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. See “THE BONDS -Security and Source of Payment”.
PERMANENT SCHOOL FUND GUARANTEE	The District has applied for and has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.
TAX MATTERS	In the opinion of Cantu Harden LLP, San Antonio, Texas under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes. See “TAX MATTERS” and “APPENDIX C – FORM OF CO-BOND COUNSEL’S OPINIONS”. The opinion of Walsh, Gallegos, Treviño, Kyle, & Robinson, P.C., will not address federal tax matters.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Dallas, Texas.
MUNICIPAL BOND RATING ...	The presently outstanding unlimited tax-supported debt of the District, including the Bonds, is rated “A1” by Moody’s Investors Service (“Moody’s”) without regard to credit enhancement. The Bonds are also expected to be rated “Aaa” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.)
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities and the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds. (see “PLAN OF FINANCING - Purpose” and “—Sources and Uses of Funds”).
BOOK-ENTRY ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).

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

DELIVERY When issued, anticipated to occur on or about August 11, 2022.

LEGALITY The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Cantu Harden LLP, San Antonio, Texas and Walsh, Gallegos, Trevino, Kyle, & Robinson P.C., San Antonio, TX, Co-Bond Counsel (see "APPENDIX C – FORM OF CO-BOND COUNSEL'S OPINIONS" herein).

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OFFICIAL STATEMENT

Relating to

\$39,455,000

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

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, and C hereto, provides certain information regarding the issuance of the \$39,455,000 Pleasant Grove Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2022 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State" or "Texas"), particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended (together, the "Financing Act"), an election held in the District on May 7, 2022 (the "Election"), and that certain bond order (the Bond Order") to be adopted by the District's Board of Trustees on July 14, 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 upon request from the District and, during the offering period, from the District's Financial Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and reopening of the State. On July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Orders GA-13 (related to detention in county and municipal jails) and GA-37 (related to migrant transport). Executive Order GA-38 combines several previous executive orders into one order and continues

the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from (i) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals, and similar facilities) if the public or private entity that has adopted such requirement receives public funds any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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

Executive Order GA-38, issued on July 29, 2021 and Executive Order GA-39, issued on August 25, 2021, further provide that governmental entities cannot require mask mandates, vaccine passports, or mandatory vaccinations. On October 11, 2021, the Governor issued Executive Order GA-40, prohibiting any entity from requiring COVID vaccinations. Various lawsuits have been filed throughout the State related to the foregoing and litigation is expected to continue.

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

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

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

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

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), the purchase of the necessary sites for school facilities and the purchase of new school buses, and (ii) to pay the costs of issuing the Bonds.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$39,455,000.00
Reoffering Premium on the Bonds	<u>1,916,859.85</u>
TOTAL SOURCES	\$41,371,859.85
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$39,900,000.00
Total Underwriter's Discount	355,095.00
Costs of Issuance	224,290.45
Deposit to Capitalized Interest (CIF) Fund	887,723.33
Rounding Amount	<u>4,751.07</u>
TOTAL USES	\$41,371,859.85

THE BONDS

Description of the Bonds

The Bonds will be dated August 1, 2023 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page. Interest on the Bonds will accrue from the date of initial delivery (the "Delivery Date"), will be payable on February 15, 2023, and each February 15 and August 15 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity.

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

The definitive Bonds will initially be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Debt service on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined above) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

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

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) are anticipated to represent the total amount of voted bonds (described below) approved at the Election. Following the issuance of the Bonds, the District anticipates that it will have no voted but unissued bonds as further described below. See “Table 10 – Authorized but Unissued Bonds” in APPENDIX A hereto.

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
Designing, constructing, renovating, improving, upgrading, acquiring, and equipping school buildings in the District, and the purchase of necessary sites for school buildings	\$39,900,000	-0-	\$39,900,000 ⁽¹⁾	-0-

⁽¹⁾ Includes premium that the District has allocated against voted authorization.

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount (see “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 submitted an application to the Texas Education Agency, in connection with the sale of the Bonds, and 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, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2032, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Redemption. The Bonds maturing on August 15 in the years 2046, 2049 and 2052 (the “Term Bonds”) are also subject to mandatory sinking fund redemption prior to stated maturity from money required to be deposited in the Interest and Sinking Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 15 in each of the years as set forth below:

<u>Term Bond Maturing August 15, 2046</u>		<u>Term Bond Maturing August 15, 2049</u>		<u>Term Bond Maturing August 15, 2052</u>	
<u>Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Mandatory Redemption</u>	<u>Principal Amount</u>
August 15, 2044	\$3,070,000	August 15, 2047	\$3,550,000	August 15, 2050	\$4,000,000
August 15, 2045	3,225,000	August 15, 2048	3,695,000	August 15, 2051	4,165,000
August 15, 2046	3,395,000	August 15, 2049*	3,845,000	August 15, 2052*	4,335,000

*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 August 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 redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

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

In the Order, the District reserves the right in the case of a redemption to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default. The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds,

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

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

DTC Redemption Provisions

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

Defeasance

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

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

Amendments to Bond Order

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

Default and Remedies

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

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Co-Bond Counsel, Cantu Harden LLP, San Antonio, Texas and Walsh, Gallegos, Trevino, Kyle, & Robinson P.C., San Antonio, TX.

Delivery

When issued; anticipated to occur on or about August 11, 2022.

Future Issues

On May 7, 2022, the District's voters authorized the District to issue \$39,455,000 in unlimited ad valorem tax bonds (the "Election"). The Bonds will be the first and final installment of this authorization and expects to apply bond proceeds (principal and allocated premium) in the aggregate amount of \$39,455,000 (leaving no bonds unissued) against the same. Aside from the Bonds, the District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months.

The District may enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, 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 and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF supports the State's public school system in two major ways: distributions to the constitutionally established Available School Fund (the "ASF"), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be "permanent," and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from

the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

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

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

Transition to the PSF Corporation” for ongoing changes in the management structure of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management Transition to the PSF Corporation

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

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

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a 'total-return-based' formula instead of the 'current-income-based' formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should

be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

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

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

Asset Allocation of Fund Portfolios

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

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

PSF Strategic Asset Allocations

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

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

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

Comparative Investment Schedule - PSF(SBOE)¹

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

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

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

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

management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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

Liquid Account Fair Value at August 31, 2021¹

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

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

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

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

<u>Changes in SBOE-determined multiplier for State Capacity Limit</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At 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 ongoing 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 ⁽¹⁾	Market Value ⁽¹⁾
2017	\$31,870,581,428	\$41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020	36,642,000,738	46,764,059,745
2021 ⁽²⁾	38,699,045,012	55,581,401,632

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

⁽²⁾ At August 31, 2021, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$183.7 million, \$4,655.9 million, \$4.7 million, and \$699.2 million, respectively, and market values of approximately \$2,720.4 million, \$629.3 million, \$4,636.6 million, \$1.8 million, and \$699.2 million, respectively. At December 31, 2021, the PSF had a book value of \$39,841,061,222 and a market value of \$56,168,194,806. December 31, 2021 values are based on unaudited data, which is subject to adjustment.

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

⁽²⁾ At December 31, 2021 (based on unaudited data, which is subject to adjustment), there were \$96,973,094,043 of bonds guaranteed under the Guarantee Program, representing 3,520 school district issues, aggregating \$97,006,213,263 in principal amount and 89 charter district issues, aggregating \$3,408,646,000 in principal amount. At December 31, 2021, the 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 8-31-2021¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(SBOE) Portfolio	22.97%	20.73%
Domestic Large Cap Equities(SBOE)	31.26	31.17
Domestic Small/Mid Cap Equities(SBOE)	47.88	47.40
International Equities(SBOE)	25.27	24.87
Emerging Market Equity(SBOE)	19.33	21.12
Fixed Income(SBOE)	1.64	-0.08
Treasuries	-7.02	-7.27
Absolute Return(SBOE)	13.84	13.05
Real Estate(SBOE)	12.06	9.34
Private Equity(SBOE)	53.88	43.38
Real Return(SBOE)	16.06	18.08
Emerging Market Debt(SBOE)	5.92	4.14
Liquid Large Cap Equity(SBOE)	43.24	38.19
Liquid Small Cap Equity(SBOE)	61.97	52.07
Liquid International Equity(SBOE)	12.20	12.18
Liquid Short-Term Fixed Income(SBOE)	0.91	0.37
Liquid Core Bonds(SBOE)	-0.07	-0.18
Liquid TIPS(SBOE)	6.09	6.20
Liquid Transition Cash Reserves(SBOE)	0.44	0.08
Liquid Combined(SBOE)	4.90	4.27
PSF(SLB)	12.81	N/A

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

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

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

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

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

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

billion, respectively. Distributions from the SLB to the ASF for fiscal years 2020 and 2021 totaled \$600 and \$600 million, respectively.

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq. and is available on the TEA web site at <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 at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019 and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of

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

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$40,000 exemption of the appraised value of all homesteads (effective for the 2022 tax year), (2) a \$10,000 exemption of the appraised value of the homesteads of person sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used

for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. For tax years beginning prior to January 1, 2022, except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. For tax years beginning on or after January 1, 2022, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended.

Tax Increment Reinvestment Zones

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

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district's Tier One entitlement (reducing Tier One State funds for eligible school districts)

and will not be considered in calculating any school district's Tier Two entitlement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts").

Tax Limitation Agreements

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

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

The Chief Appraiser does allow split payments of taxes.

The Chief Appraiser does not give discounts for early payment of taxes.

The District does not participate in a tax increment-financing zone.

The District does not tax non-business personal property.

The District does tax "goods in transit" without exemption.

The District has not granted a tax abatement under the Chapter 313 Property Value Limitations.

The District grants a state mandated homestead exemption of \$40,000 for taxpayers who are at least 65 years of age.

The District grants a local homestead exemption of \$40,000 for taxpayers, and an additional exemption of \$10,000 for taxpayers who are at least 65 years of age or disabled.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

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

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations (“M&O”) tax to pay current expenses and an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded

indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

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

The State Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 (“87th Regular Session”). When the Legislature is not in regular session, the Governor may call one or more special session, at the Governor’s direction, each lasting no more than thirty (30) days, and for which the Governor sets the agenda. The Governor has so far called three special sessions, with the third special session concluding October 18, 2021.

During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts. However, during the Third Called Session of the 87th State Legislature, the State Legislature passed Senate Bill 1 (“SB 1”), which, among other things changed the resident homestead exemption from \$25,000 to \$45,000, as approved by voters at the May 7, 2022 uniform election. As a result of the increased exemption, additional changes to the education finance system will be implemented, including “hold harmless” allotments, to provide funding to school districts who have less revenue (including revenues specifically to serve debt service and maintenance and operations) due to the implementation of the increased homestead exemption. At this time, the District cannot ascertain the financial impact, if any, the change in homestead exemption will have on the District’s finances.

The District can make no representations or predictions regarding this legislation or any legislation that may be passed during any session.

Local Funding for School Districts

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. 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 are designed, 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 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. 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 two alternative calculations: (1) the “State Compression Percentage” (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for

any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2021 Texas Legislative Session, a provision of the general appropriations act reduced the maximum MCR for the 2021-2022 school year. It established \$0.9134 as the maximum rate and \$0.8220 as the floor.

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for the 2020-2021 and given 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 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,323,444,300 for the EDA, IFA, and NIFA.

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

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

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.

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of \$0.17 in school year 2018-2019 were required to reduce their Enrichment Tax Rate to approximately \$0.138 per \$1 00 taxable value for the 2019-2020 school 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 2020-2021 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 2020-2021 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 2020-2021 State fiscal biennium on new bonds issued by school districts in the 2020-2021 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 2019 Legislative Session, the State Legislature appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

Local Revenue Level in Excess of Entitlement

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

Recapture is 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.

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2021-2022 fiscal year, the District was designated as an "excess local revenue" district by the TEA. Accordingly, the District has been required to exercise one of the wealth equalization options permitted under applicable State law.

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation taxes ("M&O Tax") subject to approval of a proposition submitted to district voters under section 45.003(d) of the Texas Education Code, as amended. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph (see "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate" herein). 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 March 9, 1963, under Article 2784e-1, Texas Revised Statutes Annotated, as amended (Article 2784e-1").

HB 3 established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by independent school districts, such as the District, for the 2019 and subsequent tax years:

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One

funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the 50-cent Test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the 50-cent Test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the 50-cent Test. The District has utilized projected values or State assistance to satisfy the 50-cent Test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language

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

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

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "NOTES TO THE FINANCIAL STATEMENTS – I. Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2021 as set forth in APPENDIX B hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "NOTES TO THE FINANCIAL STATEMENTS – J. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2021 as set forth in APPENDIX B hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the conclusion of the 2020-21 fiscal year, the District had a net pension liability of \$4,914,709.

See primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See the audited financial statements of the District for the year ended August 31, 2021 as set forth in APPENDIX B hereto for information related to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

INVESTMENT POLICIES

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

Legal Investments

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

under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than ten (10) years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's

investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

LEGAL MATTERS

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

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

Co-Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

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

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

TAX MATTERS

Tax Exemption

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

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

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

Tax Accounting Treatment of Premium Bonds

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

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

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, as further described below under "Availability of Information from MSRB".

Annual Reports

The District is not exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2), which

applies to certain small issuers such as the District who are not an “obligated person” (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000.

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A and in Appendix B, which is the District’s annual audited financial report. The District will update and provide the annual financial information appearing in the tables contained in Appendix A within six months after the end of each fiscal year ending in and after 2022 and, if not submitted as part of the annual financial information, the District will provide its audited annual financial report when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District’s current fiscal year end is August 31. Accordingly, the District must provide updated information included in the tables contained in Appendix A by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s Internet Web site or filed with the SEC, as permitted by the Rule.

Notice of Certain Events

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

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

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. The term “financial obligation” used in clauses (15) and (16) of the immediately preceding paragraph

means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee or either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

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.

Municipal Bond Rating

The Bonds are expected to be rated “Aaa” by Moody’s Investors Service (“Moody’s”) 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 “A1” by Moody’s 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.

Financial Advisor

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

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

Sale of the Bonds

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by Citigroup Global Markets Inc. (the “Initial Purchaser”) to purchase the Bonds at the rates shown on the inside cover page of this Official Statement at a price of \$41,015,959.58. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

Miscellaneous

The financial data and other information contained herein have been obtained from the District’s records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Forward Looking Statements

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many

of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Information from External Sources

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

Authorization of the Official Statement

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

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

In the Bond Order, the Board will approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Initial Purchaser's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT

/s/ Ross Sarine
President, Board of Trustees

ATTEST:

/s/ Lorie Son
Secretary, Board of Trustees

APPENDIX A
SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

TABLE 1

2021 Total Appraised Value	\$1,205,169,395
Less:	
Homestead Exemption Loss	\$64,239,442
Over-65 Exemption	9,417,238
Disabled Persons	819,880
Disabled Veteran	14,820,384
Minimum \$500	1,452
Productivity Loss	81,119,131
10% Cap Loss	<u>1,992,982</u>
Net Taxable Assessed Valuation	\$1,032,758,886

Note: The above figures were taken from the Bowie County Appraisal District which is compiled during the initial phase of the tax year and are subject to change.

TAXABLE ASSESSED VALUATIONS BY CATEGORY

TABLE 2

Category	2021/22	% of Total	2020/21	% of Total	2019/20	% of Total
Real, Residential, Single-Family	\$770,277,120	63.91%	\$732,188,862	60.75%	\$698,189,446	59.25%
Real, Residential, Multi-Family	80,898,692	6.71%	65,837,825	5.46%	58,063,218	4.93%
Real, Vacant Lots/Tracts & Colonia Lots/Tracts	30,312,839	2.52%	30,446,051	2.53%	30,706,039	2.61%
Real, Qualified Open-Space Land	99,899,163	8.29%	99,337,867	8.24%	98,834,988	8.39%
Real, Farm and Ranch Improvements	35,380,737	2.94%	33,763,975	2.80%	31,910,034	2.71%
Real, Commercial	147,304,060	12.22%	175,429,775	14.56%	169,667,938	14.40%
Real & Tangible Personal, Utilities	14,075,882	1.17%	13,402,225	1.11%	13,037,074	1.11%
Tangible Personal, Commercial	18,969,418	1.57%	20,564,110	1.71%	26,349,540	2.24%
Tangible Personal, Industrial	628,621	0.05%	712,614	0.06%	593,391	0.05%
Real, Mobile Homes	3,677,208	0.31%	3,350,880	0.28%	3,076,223	0.26%
Residential Property, Inventory	2,453,541	0.20%	2,299,187	0.19%	3,739,861	0.32%
Special, Inventory	1,292,114	0.11%	1,110,619	0.09%	1,267,630	0.11%
Total Appraised Value	\$1,205,169,395	100.00%	\$1,178,443,999	97.78%	\$1,135,435,382	96.35%
Less: Total Exemptions/Reductions/Adjustments	<u>(172,410,509)</u>		<u>(169,248,123)</u>		<u>(201,996,190)</u>	
Total Taxable Assessed Value	\$1,032,758,886		\$1,009,195,876		\$933,439,192	

Category	2018/19	% of Total	2017/18	% of Total
Real, Residential, Single-Family	\$675,599,365	59.50%	\$659,454,591	58.96%
Real, Residential, Multi-Family	57,356,641	5.05%	58,925,902	5.27%
Real, Vacant Lots/Tracts & Colonia Lots/Tracts	33,088,436	2.91%	32,480,350	2.90%
Real, Qualified Open-Space Land	99,727,702	8.78%	98,214,894	8.78%
Real, Farm and Ranch Improvements	30,817,228	2.71%	26,714,293	2.39%
Real, Commercial	167,434,166	14.75%	159,261,519	14.24%
Real & Tangible Personal, Utilities	17,888,155	1.58%	16,864,070	1.51%
Tangible Personal, Commercial	28,999,880	2.55%	29,426,297	2.63%
Tangible Personal, Industrial	662,868	0.06%	534,233	0.05%
Real, Mobile Homes	2,939,578	0.26%	2,942,632	0.26%
Residential Property, Inventory	2,700,187	0.24%	2,564,922	0.23%
Special, Inventory	1,256,170	0.11%	1,311,542	0.12%
Total Appraised Value	\$1,118,470,376	98.51%	\$1,088,695,245	97.34%
Less: Total Exemptions/Reductions/Adjustments	<u>(201,480,514)</u>		<u>(192,481,513)</u>	
Total Taxable Assessed Value	\$916,989,862		\$896,213,732	

Note: The above figures were taken from the Bowie County Appraisal District which are compiled during the initial phase of the tax year and are subject to change.

TAX DATA

TABLE 3

Tax Year	Tax Debt Outstanding at FYE ⁽¹⁾	Taxable Assessed Valuation (TAV) ⁽²⁾	Estimated Population ⁽³⁾	TAV Per Capita	Tax Debt		Year Ended
					Per Capita	Ratio to TAV	
2017	\$ 45,855,000	896,213,732	12,178	73,593	2,376	3.31%	8/31/2018
2018	44,605,000	916,989,862	12,344	74,286	3,765	5.12%	8/31/2019
2019	43,210,000	933,439,192	12,344	75,619	3,613	4.80%	8/31/2020
2020	41,635,000	1,009,195,876	12,744	79,190	3,500	4.63%	8/31/2021
2021	41,970,000	1,032,758,886	13,067	79,036	3,212	4.06%	8/31/2022

(1) Projected

(2) Bowie County Appraisal District Records

(3) Municipal Advisory Council of Texas

TAX RATE, LEVY AND COLLECTION HISTORY

TABLE 4

Tax Year	Tax Levy	Tax Rate		% Collections		Year Ended
		M&O	I&S	Current	Total	
2017	\$ 12,905,478	1.09000	\$0.35000	98.55%	99.14%	8/31/2018
2018	13,342,202	1.09000	\$0.36500	98.64%	99.27%	8/31/2019
2019	13,127,119	1.01648	\$0.36500	94.50%	98.46%	8/31/2020
2020	13,803,781	1.00280	\$0.36500	99.18%	99.80%	8/31/2021
2021	14,061,012	0.99650	\$0.36500	In Process of Collection		8/31/2022

Note: The above figures were taken from the Municipal Advisory Council of Texas, Texas Municipal Reports, the Bowie County Tax Assessor-Collector's Office, the Bowie County Appraisal Office and the Issuer's 2021 Annual Financial Report.

TEN LARGEST TAXPAYERS

TABLE 5

Name	Type of Property	2021 Net Taxable Assessed Valuation	% of Total 2021 Assessed Valuation
CHRISTUS HEALTH ARK LA TX	Hospital	\$26,521,191	2.57%
ARISTA APARTMENTS LLC ETAL	Apartments	15,600,000	1.51%
LPG APARTMENTS LP	Apartments	14,200,000	1.37%
PATMOS HOLDING LLC	Real Estate	12,888,245	1.25%
MPT OF TEXARKANA-STEWARD LLC	Hospital	7,624,633	0.74%
AEP SOUTHWESTERN ELEC POWER	Utility	7,510,974	0.73%
HARVEST COWHORN CREEK ESTAT	Land/Improvements	6,280,000	0.61%
PH OP PKGS, LLC	Commercial	6,137,142	0.59%
TEXARKANA TX SUMMERHILL BIG 22	Commercial	5,958,400	0.58%
TWIN PEAKS HOSPITALITY LLC	Hotel/Motel	5,600,000	0.54%
Total		\$108,320,585	10.49%

Note: The above figures were taken from the Bowie County Appraisal Office.

TABLE 6 - TAX ADEQUACY

2022 Principal and Interest Requirements	\$3,362,029
0.3322 Tax Rate at 98.00% Collections Produces	\$3,362,209
Average Annual Principal and Interest Requirements, 2022 - 2043	\$4,585,631
0.4531 Tax Rate at 98.00% Collections Produces	\$4,585,842
Maximum Principal and Interest Requirements, 2029	\$5,379,679
0.5316 Tax Rate at 98.00% Collections Produces	\$5,380,343

TABLE 7 - ESTIMATED OVERLAPPING DEBT ⁽¹⁾

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Bowie County	5/31/2022	\$17,470,000	16.40%	\$2,865,080
Texarkana College	5/31/2022	13,447,482	16.40%	2,205,387
Texarkana, City of	5/31/2022	39,175,000	31.30%	12,261,775
Estimated (Net) Overlapping Debt				\$17,332,242
Pleasant Grove ISD ⁽²⁾	5/31/2022	\$81,425,000	100.00%	81,425,000
Total Direct & Estimated Overlapping Debt				\$98,757,242
Total and Overlapping Debt as a % of 2021 Certified Taxable Assessed Valuation				9.56%
Total and Overlapping Debt as a Per Capita				\$7,558

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bonds. Does not include any "other obligations" outstanding payable from the District's M&O tax rate (see "Table 11 - Other Obligations").

DEBT SERVICE REQUIREMENTS

TABLE 8

Fiscal Year Ending 8/31	Current Total Debt Service (Unlimited)	Less: Debt Service on Refunded Bonds	The Bonds			Combined Debt Service ⁽¹⁾
			Principal	Interest	Total	
2022	\$ 3,362,029	\$ -	\$ -	\$ -	\$ -	\$ 3,362,029
2023	3,391,579	-	-	1,756,148	1,756,148	5,147,727
2024	3,402,579	-	-	1,736,850	1,736,850	5,139,429
2025	3,469,979	-	-	1,736,850	1,736,850	5,206,829
2026	2,668,704	-	-	1,736,850	1,736,850	4,405,554
2027	3,519,954	-	-	1,736,850	1,736,850	5,256,804
2028	3,573,454	-	-	1,736,850	1,736,850	5,310,304
2029	3,642,829	-	-	1,736,850	1,736,850	5,379,679
2030	3,463,954	-	-	1,736,850	1,736,850	5,200,804
2031	3,488,056	-	-	1,736,850	1,736,850	5,224,906
2032	3,497,241	-	50,000	1,735,600	1,785,600	5,282,841
2033	1,993,825	-	250,000	1,728,100	1,978,100	3,971,925
2034	2,008,650	-	675,000	1,704,975	2,379,975	4,388,625
2035	2,016,850	-	700,000	1,670,600	2,370,600	4,387,450
2036	2,027,550	-	725,000	1,634,975	2,359,975	4,387,525
2037	2,038,125	-	750,000	1,598,100	2,348,100	4,386,225
2038	2,047,750	-	775,000	1,559,975	2,334,975	4,382,725
2039	2,058,000	-	400,000	1,530,600	1,930,600	3,988,600
2040	2,063,750	-	425,000	1,509,975	1,934,975	3,998,725
2041	2,074,750	-	450,000	1,488,100	1,938,100	4,012,850
2042	2,085,625	-	475,000	1,464,975	1,939,975	4,025,600
2043	2,096,125	-	500,000	1,440,600	1,940,600	4,036,725
2044	-	-	3,070,000	1,351,350	4,421,350	4,421,350
2045	-	-	3,225,000	1,193,975	4,418,975	4,418,975
2046	-	-	3,395,000	1,028,475	4,423,475	4,423,475
2047	-	-	3,550,000	872,600	4,422,600	4,422,600
2048	-	-	3,695,000	727,700	4,422,700	4,422,700
2049	-	-	3,845,000	576,900	4,421,900	4,421,900
2050	-	-	4,000,000	420,000	4,420,000	4,420,000
2051	-	-	4,165,000	256,700	4,421,700	4,421,700
2052	-	-	4,335,000	86,700	4,421,700	4,421,700
	<u>\$ 59,991,358</u>	<u>\$ -</u>	<u>\$ 39,455,000</u>	<u>\$ 41,231,923</u>	<u>\$ 80,686,923</u>	<u>\$ 140,678,281</u>

Fiscal Year Ending 8/31	Outstanding Debt Service (Limited)		
	Principal	Interest	Total
2022	\$ 105,000	\$ 16,594	\$ 121,594
2023	110,000	14,175	124,175
2024	110,000	11,700	121,700
2025	115,000	9,169	124,169
2026	115,000	6,581	121,581
2027	115,000	3,994	118,994
2028	120,000	1,350	121,350
	<u>\$790,000</u>	<u>\$63,563</u>	<u>\$853,563</u>

INTEREST & SINKING FUND BUDGET PROJECTIONS**TABLE 9**

Tax Supported Debt Service Requirements, FYE 2022		\$	3,362,029
Debt Service Fund Balance, FYE 2021 ⁽²⁾	\$	3,631,286	
Estimated State Aid ⁽¹⁾		66,283	
Estimated Tax Levy to be Collected and Other Local Revenues		3,581,091	
Estimated Issuer Contribution		-	7,278,660
Estimated Debt Service Fund Balance, FYE 2022		\$	3,916,631

⁽¹⁾ Source: Texas Education Agency Summary of Finances.

⁽²⁾ Source: District records.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**TABLE 10**

NONE

OTHER OBLIGATIONS**TABLE 11**

On July 17, 2012 the District issued \$2,235,000 of Limited Tax Refunding Bonds, Series 2012 ("Series 2012"). This issue redeemed in full Pleasant Grove Independent School District Maintenance Tax Note Refunding, Series 2008 in the amount of \$720,000 and Limited Tax Refunding Bonds, Series 2008 in the amount of \$1,495,000 and resolving other matters incident and related to the issuance, sale, payment and delivery of said Bonds. The Series 2012 has a stated interest rate of 2.25% and will mature in 2028 with a net present value savings to the District of approximately \$307,990. As a result, the Maintenance Tax Note Refunding, Series 2008 and Limited Tax Refunding Bonds, Series 2008 are considered defeased and the District has removed the liability from its financial statements.

Maintenance Tax Note Obligations requirements are as follows:

FYE	Principal	Interest	Total
2022	\$ 105,000	\$ 16,594	\$ 121,594
2023	110,000	14,175	124,175
2024	110,000	11,700	121,700
2025	115,000	9,169	124,169
2026-2028	350,000	11,925	361,925
Total	\$ 790,000	\$ 63,563	\$ 853,563

	Fiscal Years Ending August 31,				
	2021	2020	2019	2018	2017
Revenues:					
Program Revenues					
Charges for Services	\$ 1,005,299	\$ 924,939	\$ 1,166,524	\$ 555,918	\$ 806,765
Operating Grants and Contributions	2,518,261	3,103,253	2,704,041	(1,370,227)	1,802,808
Capital Grants and Contributions	-	-	-	-	-
Total Program Revenues	\$ 3,523,560	\$ 4,028,192	\$ 3,870,565	\$ (814,309)	\$ 2,609,573
General Revenues					
Property Taxes	\$ 13,345,823	\$ 12,849,591	\$ 13,262,861	\$ 12,823,166	\$ 12,448,185
Grants and Contributions - Not Restricted	11,293,051	10,002,474	7,155,228	6,710,138	6,691,198
Investment Earnings	12,092	371,183	780,849	198,781	68,814
Other	375,162	208,526	156,622	665,693	165,663
Gain on Sale of Property	-	-	-	514,514	-
Total General Revenues	\$ 25,026,128	\$ 23,431,774	\$ 21,355,560	\$ 20,912,292	\$ 19,373,860
Total Revenues	\$ 28,549,688	\$ 27,459,966	\$ 25,226,125	\$ 20,097,983	\$ 21,983,433
Expenditures:					
Instruction	\$ 14,955,942	\$ 14,913,315	\$ 12,406,372	\$ 7,639,719	\$ 11,377,289
Instructional Resources & Media	266,207	107,132	119,511	95,701	127,262
Curriculum & Staff Development	115,909	66,241	55,072	17,587	56,953
Instructional Leadership	169,607	254,257	200,012	103,337	182,078
School Leadership	1,451,429	1,400,306	1,269,647	736,986	1,130,641
Guidance & Counseling	474,331	598,111	567,852	332,531	546,783
Health Services	171,764	159,739	151,771	94,513	161,789
Student Transportation	119,109	144,437	186,909	139,351	157,656
Food Services	672,043	601,043	717,096	890,413	635,390
Co-Curricular/ Extracurricular Activities	2,100,167	1,591,334	2,000,070	1,511,824	1,506,343
General Administration	1,633,922	1,414,722	1,280,202	716,888	1,031,306
Facility Maintenance & Operations	2,926,501	2,378,701	2,235,644	1,753,734	2,110,327
Security and Monitoring Services	152,892	112,216	113,260	68,606	97,403
Data Processing Services	631,524	1,018,049	405,585	170,270	106,718
Interest on Long-Term Debt	1,243,527	1,702,183	1,852,088	1,197,326	1,058,016
Bond Issuance Costs and Fees	352,879	2,301	2,225	255,868	5,475
Payments to Shared Service Arrangements	223,119	251,157	233,634	213,071	209,775
Other Intergovernmental Charges	190,853	187,728	182,878	179,916	148,435
Total Expenditures	\$ 27,851,725	\$ 26,902,972	\$ 23,979,828	\$ 16,117,641	\$ 20,649,639
Increase/(Decrease) in Net Position	\$ 697,963	\$ 556,994	\$ 1,246,297	\$ 3,980,342	\$ 1,333,794
Beginning Net Position	\$ 13,279,425	\$ 12,701,318	\$ 11,455,021	\$ 18,323,567	\$ 16,989,773
Prior Period Adjustment	\$ -	\$ 21,113	\$ -	\$ (10,848,888)	\$ -
Ending Net Position	\$ 13,977,388	\$ 13,279,425	\$ 12,701,318	\$ 11,455,021	\$ 18,323,567

Source: District's Audited Financial Statements

GENERAL FUND REVENUES AND EXPENDITURE HISTORY

TABLE 12A

Fiscal Year Ended	8/31/2021	8/31/2020	8/31/2019	8/31/2018	8/31/2017
Revenues:					
Local and Intermediate Sources	\$10,224,407	\$10,061,212	\$10,411,673	\$10,087,076	\$9,706,092
State Program Revenues	11,835,948	10,885,365	7,803,478	7,378,376	7,207,371
Federal Program Revenues	396,338	49,464	57,586	33,730	19,503
Total Revenues	\$22,456,693	\$20,996,041	\$18,272,737	\$17,499,182	\$16,932,966
Expenditures:					
Instruction	\$12,496,795	\$11,449,367	\$10,038,571	\$9,838,151	\$9,609,450
Instruction Resources & Media Services	242,306	95,026	105,035	121,660	116,456
Curriculum & Staff Development	106,764	62,063	51,302	25,633	89,255
Instructional Leadership	151,123	220,543	172,492	157,880	164,346
School Leadership	1,295,474	1,185,891	1,106,179	1,053,995	1,023,081
Guidance, Counseling & Evaluation Services	407,970	464,214	431,079	447,508	437,513
Health Services	153,634	139,610	132,378	142,797	147,272
Student (Pupil) Transportation	193,068	128,346	166,202	183,757	143,757
Cocurricular/Extracurricular Activities	1,429,793	1,082,038	1,103,921	1,115,801	993,761
General Administration	1,473,423	1,253,531	1,138,859	952,608	937,632
Plant Maintenance and Operations	2,607,009	2,272,527	2,022,851	1,945,201	1,949,908
Security and Monitoring Services	104,026	101,944	105,207	67,407	90,794
Data Processing Services	641,981	900,058	339,997	265,736	98,035
Debt Services	195,044	194,425	193,194	206,369	215,512
Payments to SSA	223,119	251,157	233,634	213,071	209,775
Other Intergovernmental Charges	190,853	187,728	182,878	179,916	148,435
Total Expenditures	\$21,912,382	\$19,988,468	\$17,523,779	\$16,917,490	\$16,374,982
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$544,311	\$1,007,573	\$748,958	\$581,692	\$557,984
Other Financing Sources (Uses)	(\$31,087)	\$0	\$0	\$1,171,808	\$0
Net Change in Fund Balance	\$513,224	\$1,007,573	\$748,958	\$1,753,500	\$557,984
Fund Balance - Beginning	8,701,945	7,694,372	6,945,414	5,191,914	4,633,930
Fund Balance - Ending	\$9,215,169	\$8,701,945	\$7,694,372	\$6,945,414	\$5,191,914

Note: The above information was taken from the Issuer's Annual Financial Reports

CURRENT INVESTMENTS

TABLE 13

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

Type of Investment	Amount
Temporary Investments	\$11,574,910
Cash & Cash Equivalents	3,782,314
Investment Pools	-
Lone Star	4,611,142
TexStar	6,963,768
Total	\$15,357,224

Source: District audit report.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Pleasant Grove 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.

**PLEASANT GROVE
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
AUGUST 31, 2021**

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2021**

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CERTIFICATE OF BOARD

Pleasant Grove Independent School District
Name of School District

Bowie
County

019-912
Co.-Dist. Number

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

Signature of Board Secretary

Signature of Board President

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



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

Independent Auditors' Report

Board of Trustees
Pleasant Grove Independent School District
8500 North Kings Highway
Texarkana, TX 75503

Members of the Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11, budgetary comparison information on page 49, schedule of the District's proportionate share of the net pension liability (TRS) on pages 50-51, schedule of District's contributions to TRS on pages 52-53, schedule of the District's proportionate share of the OPEB liability (TRS) on page 54, and schedule of District's contributions to TRS OPEB plan on page 55 to 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 Pleasant Grove Independent School District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2022 on our consideration of the Pleasant Grove Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pleasant Grove Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pleasant Grove Independent School District's internal control over financial reporting and compliance.

Wilf & Henderson, P.C.

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

January 12, 2022

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pleasant Grove ISD Annual Financial and Compliance Report presents the management's discussion and analysis of the District's financial performance for the fiscal year ended August 31, 2021. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- Total revenue of \$28,236,029 was generated in tax, other local, state, and federal revenues, and other sources for governmental funds.
- During the year, the District's expenditures totaled \$30,179,275, of which \$3,982,272 was expenditures for debt service and \$2,328,478 for capital outlay.
- The General Fund ended the year with a fund balance of \$9,215,169, which includes \$2,005,808 in committed and \$1,000,000 in assigned fund balance.
- The District's government-wide total combined net position increased 697,963 from the prior year.
- The District's total tax rate was \$1.3678 with \$0.365 for debt service and \$1.0028 for maintenance and operation.
- The local assessed/appraised property values for 2020-2021 increased \$36,570,966.

USING THIS ANNUAL REPORT

This annual report consists of government-wide financial statements, fund financial statements, notes to the financial statements and other financial information.

Government-Wide Financial Statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the cost of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in net position. The District's net position (the difference between asset and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District is combined into one kind of activity.

- Governmental activity - All of the District's services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, and general administration. Property taxes, tuition, fees, and federal grants finance most of these activities.

Fund Financial Statements. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds – not the District as a whole. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

Laws and contracts require the District to establish separate funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund can be divided into these two categories:

- Governmental Funds - Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Fiduciary Funds – this fund accounts for resources held for the benefit of parties outside the government. The District acts as a trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes

Notes to the Financial Statements. The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Other Financial Information. The combining statements for nonmajor funds contain even more information about the Districts individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Table I
Pleasant Grove Independent School District
NET POSITION

	Governmental Activities 2020	Governmental Activities 2021	Total % Change
Current and other assets	20,284,909	16,813,506	-17.11%
Capital assets	55,064,371	55,639,502	1.04%
Total Assets	75,349,280	72,453,008	-3.84%
Deferred outflows of resources	4,851,193	5,371,553	10.73%
Other liabilities	3,763,234	2,011,849	-46.54%
Long-term liabilities	47,948,133	46,367,750	-3.30%
TRS net pension liability	4,736,361	4,914,709	3.77%
TRS net OPEB liability	6,552,456	5,574,866	-14.92%
Total Liabilities	63,000,184	58,869,174	-6.56%
Deferred inflows of resources	3,920,864	4,977,999	26.96%
Net Position:			
Net Investment in Capital Assets	13,434,878	13,714,905	2.08%
Restricted	2,853,094	2,990,237	4.81%
Unrestricted	(3,008,547)	(2,727,754)	9.33%
Total Net Position	13,279,425	13,977,388	5.26%

As of August 31, 2021, the District's assets exceed liabilities by \$13,977,388, of which \$13,714,905 of the total net position represents the investment in capital assets less any related debt used to acquire those assets that are still outstanding. \$2,990,237 of the total net position represents resources that are subject to restrictions on how they may be used and the remaining balance of total net position of (\$2,727,754) represents the unrestricted net position, which is part of the net position that can be used to finance day-to-day operations without constraints established by debt, or other legal requirements.

The total cost of all governmental activities was \$27,851,725 and the amount of these activities that our taxpayers paid for through property taxes was \$13,345,823 or 48%.

Table II
Pleasant Grove Independent School District
Changes in District's Net Position

	Governmental Activities 2020	Governmental Activities 2021	Total % Change
Revenues:			
Program Revenues:			
Charges for services	924,939	1,005,299	8.69%
Operating grants and contributions	3,103,253	2,518,261	-18.85%
General Revenues:			
Property taxes	12,849,591	13,345,823	3.86%
State Aid - Formula Grants	10,002,474	11,293,051	12.90%
Interest Earnings	371,183	12,092	-96.74%
Other general revenues	208,526	375,162	79.91%
Total Revenues	27,459,966	28,549,688	3.97%
Expenses:			
Instruction	14,913,315	14,955,942	0.29%
Instructional Resources and Media Services	107,132	266,207	148.49%
Curriculum and Staff Development	66,241	115,909	74.98%
Instructional Leadership	254,257	169,607	-33.29%
School Leadership	1,400,306	1,451,429	3.65%
Guidance, Counseling and Evaluation Services	598,111	474,331	-20.70%
Health Services	159,739	171,764	7.53%
Student (Pupil) Transportation	144,437	119,109	-17.54%
Food Services	601,043	672,043	11.81%
Cocurricular/Extracurricular Activities	1,591,334	2,100,167	31.98%
General Administration	1,414,722	1,633,922	15.49%
Plant Maintenance and Operations	2,378,701	2,926,501	23.03%
Security and Monitoring Services	112,216	152,892	36.25%
Data Processing Services	1,018,049	631,524	-37.97%
Debt Service - Interest on Long Term Debt	1,702,183	1,243,527	-26.95%
Debt Service - Bond Issuance Cost and Fees	2,301	352,879	15235.90%
Payments to Fiscal Agents/Member Districts	251,157	223,119	-11.16%
Other Intergovernmental Charges	187,728	190,853	1.66%
Total Expenses	26,902,972	27,851,725	3.53%
Increase (Decrease) in Net Position	556,994	697,963	25.31%
Net Position Beginning of Year	12,701,318	13,279,425	4.55%
Prior Period Adjustment	21,113	-	-100.00%
Net Position End of Year	13,279,425	13,977,388	5.26%

THE DISTRICT'S FUNDS

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

Table III
Pleasant Grove Independent School District
NET CHANGES IN FUND BALANCES

	Governmental Funds 2020	Governmental Funds 2021	Total \$ Change	Total % Change
Revenues:				
Local and Intermediate Sources	\$ 14,436,010	\$ 14,630,529	\$ 194,519	1.35%
State Program Revenues	11,327,583	12,039,971	712,388	6.29%
Federal Program Revenues	1,108,769	1,565,529	456,760	41.20%
Total Revenues	<u>26,872,362</u>	<u>28,236,029</u>	<u>1,363,667</u>	<u>5.07%</u>
Expenditures:				
Instruction	13,081,044	13,418,067	337,023	2.58%
Instructional resources & media services	95,026	242,306	147,280	154.99%
Curriculum and instructional staff development	62,063	106,764	44,701	72.03%
Instructional leadership	220,543	151,123	(69,420)	-31.48%
School leadership	1,216,364	1,295,474	79,110	6.50%
Guidance, counseling and evaluation services	517,882	424,984	(92,898)	-17.94%
Health services	139,610	153,634	14,024	10.05%
Student (Pupil) transportation	128,346	193,068	64,722	50.43%
Food services	563,169	619,022	55,853	9.92%
Extracurricular activities	1,455,816	1,913,214	457,398	31.42%
General administration	1,253,531	1,473,423	219,892	17.54%
Facilities maintenance & operations	2,272,527	2,682,548	410,021	18.04%
Security & monitoring services	101,944	138,945	37,001	36.30%
Data processing services	930,580	641,981	(288,599)	-31.01%
Debt services	3,499,526	3,982,272	482,746	13.79%
Facilities acquisition and construction	12,093,014	2,328,478	(9,764,536)	-80.75%
Payments to fiscal agent/member of SSA	251,157	223,119	(28,038)	-11.16%
Other intergovernmental charges	187,728	190,853	3,125	1.66%
Total Expenditures	<u>38,069,870</u>	<u>30,179,275</u>	<u>(7,890,595)</u>	<u>-20.73%</u>
Other Financing Sources (Uses)				
Capital Related Debt Issued (Regular Bonds)	-	20,490,000	20,490,000	100.00%
Transfers In	-	31,087	31,087	100.00%
Premium or Discount on Issuance of Bonds	-	2,316,493	2,316,493	100.00%
Transfers Out	-	(31,087)	(31,087)	-100.00%
Other (Uses)	-	(22,614,264)	(22,614,264)	-100.00%
Total Other Financing Sources (Uses)	<u>-</u>	<u>192,229</u>	<u>192,229</u>	<u>100.00%</u>
Net Change in Fund Balances	(11,197,508)	(1,751,017)	9,446,491	84.36%
Fund Balance - Beginning of Year	27,638,444	16,462,049	(11,176,395)	-40.44%
Prior Period Adjustment	21,113	-	(21,113)	-100.00%
Fund Balance - End of Year	<u>\$ 16,462,049</u>	<u>\$ 14,711,032</u>	<u>(1,751,017)</u>	<u>-10.64%</u>

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

As stated earlier, governmental fund statements provided a view of the District’s general operations and the basic services it provides, as well as reporting balances that are available for future spending.

As the District completed the year, governmental funds reported a combined fund balance of \$14,711,032. This combined balance includes funds that are restricted, committed and assigned as follows:

- \$ 1,198,808 is committed for future construction (General Fund)
- \$ 207,000 is committed for payment of debt (General Fund)
- \$ 600,000 is committed for equipment (General Fund)
- \$ 267,812 is committed for campus activity funds (Special Revenue Fund)
- \$ 1,000,000 is assigned for facility improvements (General Fund)
- \$ 2,750,300 is restricted for retirement of long-term debt (Debt Service Fund)
- \$ 215,317 is restricted for state/federal programs, and other local sources (Special Revenue Fund)
- \$ 55,294 is restricted for locally funded special revenue funds (Special Revenue Fund)
- \$ 2,207,140 is restricted for capital acquisition and contractual obligations (Capital Projects Fund)

The restricted, committed, and assigned funds total \$8,501,671, leaving unassigned funds of \$6,209,361. The District’s combined fund balance decreased from the prior year by (\$1,751,017). The General Fund is the primary operating fund of the District. The District has various restricted, committed and assigned funds in the General Fund, leaving the unassigned fund balance representing 28% of the General Fund expenditures.

Throughout the year the Board of Trustees revised the District’s budget. Significant budget amendments were as follows:

General Fund:	
(Increase) in instruction expenditures	(740,359)
(Increase) in instructional resources and media services	(178,206)
Decrease in curriculum and instructional staff development	2,500
(Increase) in instructional leadership	(5,260)
(Increase) in school leadership	(25,068)
(Increase) in guidance, counseling, and evaluation services	(15,247)
(Increase) in health services	(7,533)
(Increase) in student (pupil) transportation	(16,513)
(Increase) in extracurricular activities	(357,320)
(Increase) in general administration	(278,089)
(Increase) in facilities maintenance and operations	(487,718)
(Increase) in security and monitoring services	(3,626)
(Increase) in data processing services	(144,674)
(Increase) in facilities acquisition and construction	(810,000)
	<u>(3,067,113)</u>
Debt Service Fund:	
(Increase) in principal on long-term debt	(455,000)
Increase in capital related debt issued	20,490,000
Increase in premium or discount on issuance of bonds	2,316,493
(Decrease) in other(uses)	(22,614,264)
	<u>(262,771)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$55,639,502 invested in capital assets. During the current year, the District purchased several capital assets, including a bus, fencing and a security system at the new elementary, a playground, school zone signage, and network upgrades.

Debt

Outstanding Bonded Debt of the District consists of the following:

The District issued \$8,634,999 of Unlimited Tax Refunding Bonds, Series 2014 to redeem a portion of the Series 2007 in the amount of \$8,635,000. The principal outstanding on the Serial Current Interest Bonds is \$1,755,000 with final payment in 2030.

The District issued \$8,460,000 of Unlimited Tax Refunding Bonds, Series 2015 to redeem a portion of the Series 2007 in the amount of \$9,195,000. The principal outstanding on the Serial Current Interest Bonds is \$2,385,000 with final payment in 2027.

The District issued \$17,945,000 of Unlimited Tax School Building Bonds, Series 2018 to construct, equip and renovate school buildings. The final payment on the bonds will be made February 15, 2043. The principal outstanding on the unlimited tax school building bonds is \$17,595,000.

The District issued Refunding Bond Series 2020A and 2020B to refund Series 2010 and 2013 in full as well as a partial refunding of Series 2014 and 2015. The principal outstanding on the Series Current Interest Bond 2020A is \$3,115,000 paid off in 2025 and 2020B is \$16,330,000 paid off in 2032.

Other debt outstanding to the District includes:

The District issued \$2,235,000 of Limited Tax Refunding Bonds, Series 2012. This issue redeemed in full Maintenance Note Refunding, Series 2008 and Limited Tax Refunding Bonds, Series 2008. The principal outstanding on this note is \$790,000 with final payment in 2028.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's board of trustees adopted a budget of \$20,771,123 for the school year 2021-2022 with the tax rate of \$1.3615. This tax rate is a decrease of .5% over the prior year tax rate, of which \$0.9965 to be used for maintenance and operations and \$0.365 to be used for retirement of debt.

State funding for 2021-2022 is budgeted at \$10,605,197, which includes revenue for students in attendance in average of 2,116.

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 show 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, at Pleasant Grove Independent School District, 8500 North Kings Highway, Texarkana, Texas.

BASIC FINANCIAL STATEMENTS

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2021

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 15,357,224
1220 Property Taxes - Delinquent	355,162
1230 Allowance for Uncollectible Taxes	(175,942)
1240 Due from Other Governments	1,277,062
Capital Assets:	
1510 Land	1,274,180
1520 Buildings and Improvements, Net	53,861,144
1530 Furniture and Equipment, Net	504,178
1000 Total Assets	72,453,008
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	2,154,447
1705 Deferred Outflow Related to TRS Pension	1,950,836
1706 Deferred Outflow Related to TRS OPEB	1,266,270
1700 Total Deferred Outflows of Resources	5,371,553
LIABILITIES	
2110 Accounts Payable	276,263
2140 Accrued Interest Payable	73,052
2150 Payroll Deductions and Withholdings	162,122
2160 Accrued Wages Payable	1,312,312
2300 Unearned Revenue	188,100
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	1,835,000
Due in More than One Year:	
2502 Bonds, Notes, Leases, etc.	44,532,750
2540 Net Pension Liability (District's Share)	4,914,709
2545 Net OPEB Liability (District's Share)	5,574,866
2000 Total Liabilities	58,869,174
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	642,607
2606 Deferred Inflow Related to TRS OPEB	4,335,392
2600 Total Deferred Inflows of Resources	4,977,999
NET POSITION	
3200 Net Investment in Capital Assets	13,714,905
Restricted:	
3820 Restricted for Federal and State Programs	215,317
3850 Restricted for Debt Service	2,719,626
3890 Restricted for Other Purposes	55,294
3900 Unrestricted	(2,727,754)
3000 Total Net Position	\$ 13,977,388

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

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

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 14,955,942	\$ 214,773	\$ 1,641,691	\$ (13,099,478)
12	Instructional Resources and Media Services	266,207	-	7,710	(258,497)
13	Curriculum and Instructional Staff Development	115,909	-	-	(115,909)
21	Instructional Leadership	169,607	-	10,652	(158,955)
23	School Leadership	1,451,429	-	92,818	(1,358,611)
31	Guidance, Counseling, and Evaluation Services	474,331	-	50,899	(423,432)
33	Health Services	171,764	-	12,223	(159,541)
34	Student (Pupil) Transportation	119,109	-	6,942	(112,167)
35	Food Services	672,043	280,394	455,652	64,003
36	Extracurricular Activities	2,100,167	510,132	41,619	(1,548,416)
41	General Administration	1,633,922	-	90,446	(1,543,476)
51	Facilities Maintenance and Operations	2,926,501	-	41,072	(2,885,429)
52	Security and Monitoring Services	152,892	-	38,738	(114,154)
53	Data Processing Services	631,524	-	27,799	(603,725)
72	Debt Service - Interest on Long-Term Debt	1,243,527	-	-	(1,243,527)
73	Debt Service - Bond Issuance Cost and Fees	352,879	-	-	(352,879)
93	Payments Related to Shared Services Arrangements	223,119	-	-	(223,119)
99	Other Intergovernmental Charges	190,853	-	-	(190,853)
	[TP] TOTAL PRIMARY GOVERNMENT:	\$ 27,851,725	\$ 1,005,299	\$ 2,518,261	(24,328,165)
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes			9,786,264	
DT	Property Taxes, Levied for Debt Service			3,559,559	
SF	State Aid - Formula Grants			11,293,051	
IE	Investment Earnings			12,092	
MI	Miscellaneous Local and Intermediate Revenue			375,162	
TR	Total General Revenues			25,026,128	
CN	Change in Net Position			697,963	
NB	Net Position - Beginning			13,279,425	
NE	Net Position - Ending			\$ 13,977,388	

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

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2021

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 9,713,970	\$ 2,725,760	\$ 2,207,140
1220 Property Taxes - Delinquent	265,090	90,072	-
1230 Allowance for Uncollectible Taxes	(132,362)	(43,580)	-
1240 Due from Other Governments	994,989	3,832	-
1260 Due from Other Funds	82,062	16,594	-
1000 Total Assets	<u>\$ 10,923,749</u>	<u>\$ 2,792,678</u>	<u>\$ 2,207,140</u>
LIABILITIES			
2110 Accounts Payable	\$ 182,558	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	153,600	-	-
2160 Accrued Wages Payable	1,217,090	-	-
2170 Due to Other Funds	-	-	-
2300 Unearned Revenue	34,033	-	-
2000 Total Liabilities	<u>1,587,281</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	121,299	42,378	-
2600 Total Deferred Inflows of Resources	<u>121,299</u>	<u>42,378</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	2,207,140
3480 Retirement of Long-Term Debt	-	2,750,300	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3510 Construction	1,198,808	-	-
3525 Retirement of Loans or Notes Payable	207,000	-	-
3530 Capital Expenditures for Equipment	600,000	-	-
3545 Other Committed Fund Balance	-	-	-
Assigned Fund Balance:			
3550 Construction	1,000,000	-	-
3600 Unassigned Fund Balance	6,209,361	-	-
3000 Total Fund Balances	<u>9,215,169</u>	<u>2,750,300</u>	<u>2,207,140</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 10,923,749</u>	<u>\$ 2,792,678</u>	<u>\$ 2,207,140</u>

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

Other Funds	Total Governmental Funds
\$ 710,354	\$ 15,357,224
-	355,162
-	(175,942)
278,241	1,277,062
10,288	108,944
<u>\$ 998,883</u>	<u>\$ 16,922,450</u>
\$ 93,705	\$ 276,263
8,522	162,122
95,222	1,312,312
108,944	108,944
154,067	188,100
<u>460,460</u>	<u>2,047,741</u>
-	163,677
-	163,677
215,317	215,317
-	2,207,140
-	2,750,300
55,294	55,294
-	1,198,808
-	207,000
-	600,000
267,812	267,812
-	1,000,000
-	6,209,361
<u>538,423</u>	<u>14,711,032</u>
<u>\$ 998,883</u>	<u>\$ 16,922,450</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	14,711,032
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$78,697,789 and the accumulated depreciation was (\$23,633,418). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. These total (\$47,948,133). The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		7,116,238
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2021 capital outlays and debt principal payments is to increase net position.		4,724,094
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,950,836, a deferred resource inflow in the amount of (\$642,607), and a net pension liability in the amount of (\$4,914,709). This resulted in a (decrease) in net position.		(3,606,480)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$1,266,270, a deferred resource inflow in the amount of (\$4,335,392), and a net OPEB liability in the amount of (\$5,574,866). This resulted in a (decrease) in net position.		(8,643,988)
5 The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,008,963)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		1,685,455
19 Net Position of Governmental Activities	\$	13,977,388

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 10,224,407	\$ 3,576,885	\$ 5,292
5800 State Program Revenues	11,835,948	68,956	-
5900 Federal Program Revenues	396,338	-	-
5020 Total Revenues	<u>22,456,693</u>	<u>3,645,841</u>	<u>5,292</u>
EXPENDITURES:			
Current:			
0011 Instruction	12,496,795	-	79,587
0012 Instructional Resources and Media Services	242,306	-	-
0013 Curriculum and Instructional Staff Development	106,764	-	-
0021 Instructional Leadership	151,123	-	-
0023 School Leadership	1,295,474	-	-
0031 Guidance, Counseling, and Evaluation Services	407,970	-	-
0033 Health Services	153,634	-	-
0034 Student (Pupil) Transportation	193,068	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,429,793	-	-
0041 General Administration	1,473,423	-	-
0051 Facilities Maintenance and Operations	2,607,009	-	75,539
0052 Security and Monitoring Services	104,026	-	-
0053 Data Processing Services	641,981	-	-
Debt Service:			
0071 Principal on Long-Term Debt	175,000	1,965,000	-
0072 Interest on Long-Term Debt	19,894	1,469,499	-
0073 Bond Issuance Cost and Fees	150	352,729	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	2,328,478
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	223,119	-	-
0099 Other Intergovernmental Charges	190,853	-	-
6030 Total Expenditures	<u>21,912,382</u>	<u>3,787,228</u>	<u>2,483,604</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>544,311</u>	<u>(141,387)</u>	<u>(2,478,312)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued	-	20,490,000	-
7915 Transfers In	-	-	-
7916 Premium or Discount on Issuance of Bonds	-	2,316,493	-
8911 Transfers Out (Use)	(31,087)	-	-
8949 Other (Uses)	-	(22,614,264)	-
7080 Total Other Financing Sources (Uses)	<u>(31,087)</u>	<u>192,229</u>	<u>-</u>
1200 Net Change in Fund Balances	513,224	50,842	(2,478,312)
0100 Fund Balance - September 1 (Beginning)	<u>8,701,945</u>	<u>2,699,458</u>	<u>4,685,452</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 9,215,169</u>	<u>\$ 2,750,300</u>	<u>\$ 2,207,140</u>

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

	Other Funds	Total Governmental Funds
\$	823,945	\$ 14,630,529
	135,067	12,039,971
	<u>1,169,191</u>	<u>1,565,529</u>
	2,128,203	28,236,029
	841,685	13,418,067
	-	242,306
	-	106,764
	-	151,123
	-	1,295,474
	17,014	424,984
	-	153,634
	-	193,068
	619,022	619,022
	483,421	1,913,214
	-	1,473,423
	-	2,682,548
	34,919	138,945
	-	641,981
	-	2,140,000
	-	1,489,393
	-	352,879
	-	2,328,478
	-	223,119
	-	<u>190,853</u>
	<u>1,996,061</u>	<u>30,179,275</u>
	<u>132,142</u>	<u>(1,943,246)</u>
	-	20,490,000
	31,087	31,087
	-	2,316,493
	-	(31,087)
	-	<u>(22,614,264)</u>
	<u>31,087</u>	<u>192,229</u>
	163,229	(1,751,017)
	<u>375,194</u>	<u>16,462,049</u>
\$	<u>538,423</u>	<u>\$ 14,711,032</u>

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (1,751,017)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase net position.	4,724,094
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(2,008,963)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	94,198
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$386,746. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling (\$383,054). Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by (\$526,745). The net result is a (decrease) in the change in net position.	(523,053)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$114,426. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling (\$111,465). Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$159,743. The net result is an increase in the change in net position.	162,704
Change in Net Position of Governmental Activities	\$ 697,963

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

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

Note A. Summary of Significant Accounting Policies

Pleasant Grove Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board "(GASB)" and other authoritative sources identified in *Statement on Auditing Standards No. 76* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

1. Reporting Entity

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Pleasant Grove Independent School District. The members of the Board of Trustees are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

2. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Pleasant Grove Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Revenues are considered to be available when they are collectible, if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers them available if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometime require the District to refund all or part of the unused amount.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. With the flow of economic resources measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position.

4. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following major governmental funds:

General Fund - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.

Debt Service Fund - This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

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

Additionally, the District reports the following fund types:

Governmental Fund Type:

Special Revenue Funds - The District accounts for resources restricted or committed for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Food Service fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

5. Cash Equivalents

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

6. Investments

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

7. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

8. Asset Capitalization and Useful Lives

Capital assets, which include land, buildings, improvements, furniture and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, improvements, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20-30
Furniture and Equipment	5-10

9. Compensated Absences

It is the District's policy to permit employees to accumulate sick pay benefits, vacation and additional days worked beyond commitment. Carryover is limited on unused vacation and additional days worked beyond commitment to no more than ten days. It is the District's policy to permit employees to accumulate earned but unused leave benefits. The District adopted a new policy effective September 1, 2011 and ceased awarding local leave, thus no new local days can accumulate. All additional days worked beyond commitment and vacation pay are accrued when incurred in the government-wide fund financial statements. Local personal leave benefits are accrued when vested in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

10. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Debt payable is reported net of the applicable premium and discount. Debt issuance costs are recognized as expense in the current year. In the fund financial statements, governmental fund types recognize the face amount of debt issued plus the net amount of premiums and discounts as other financing sources in the current period. Debt issuance costs are recognized as expenditures in the current period.

11. Fund Equity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as following:

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

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

12. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statements of financial position (The government-wide Statement of Net Position and governmental funds Balance Sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one of more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

13. Health Care Coverage

During the year ended August 31, 2021, employees of Pleasant Grove Independent School District were covered by a uniform statewide health care program for public education employees. The District contributed \$250 per month. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and will be administered by the Teacher Retirement System of Texas (TRS). The TRS board approved the selection of Blue Cross Blue Shield as the health plan administrator and Caremark as the pharmacy benefits manager for TRS-ActiveCare.

14. Workers' Compensation Plan

During the year ended August 31, 2021, Pleasant Grove ISD met its statutory worker's compensation obligations through participants in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2020, the Fund carries a discounted reserve of \$44,135,645 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2021, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2021, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

15. Risk Management - Claims and Judgments

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. The District entered into an agreement with the Texas Association of School Boards Risk Management Fund for their workers' compensation plan. The District participates in the State Administered Plan TRS – Active Care for employee health insurance coverage. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In management's estimation, there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

16. Restricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

17. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing service and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

18. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

19. Estimates and Assumptions

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

Note B. Stewardship, Compliance and Accountability

Budgetary Data

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

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

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

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

Significant budget amendments were as follows:

General Fund:	
(Increase) in instruction expenditures	(740,359)
(Increase) in instructional resources and media services	(178,206)
Decrease in curriculum and instructional staff development	2,500
(Increase) in instructional leadership	(5,260)
(Increase) in school leadership	(25,068)
(Increase) in guidance, counseling, and evaluation services	(15,247)
(Increase) in health services	(7,533)
(Increase) in student (pupil) transportation	(16,513)
(Increase) in extracurricular activities	(357,320)
(Increase) in general administration	(278,089)
(Increase) in facilities maintenance and operations	(487,718)
(Increase) in security and monitoring services	(3,626)
(Increase) in data processing services	(144,674)
(Increase) in facilities acquisition and construction	(810,000)
	<u>(3,067,113)</u>
Debt Service Fund:	
(Increase) in principal on long-term debt	(455,000)
Increase in capital related debt issued	20,490,000
Increase in premium or discount on issuance of bonds	2,316,493
(Decrease) in other(uses)	(22,614,264)
	<u>(262,771)</u>

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

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes. A reconciliation of fund balances for both appropriated budget and non-appropriated budget Nonmajor Governmental Special Revenue Funds is as follows:

Note C. Deposits and Investments

District Policies and Legal and Contractual Provisions Governing Deposits:

	August 31, 2021
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	215,317
Non appropriated Budget Funds	<u>323,106</u>
All Nonmajor Governmental Special Revenue Funds	<u>538,423</u>

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

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

The captions and amounts of cash and cash equivalents on the balance sheet at August 31, 2021 consist of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Balance Sheet Total
Cash and Cash Equivalents	17,046,183	(11,586,004)	2,207,140	(3,885,005)	3,782,314
Temporary Investments	(7,332,213)	14,311,764	-	4,595,359	11,574,910
Total	9,713,970	2,725,760	2,207,140	710,354	15,357,224

The District's cash deposits at August 31, 2021 and during the entire year were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the District's investment policies and types of investments. The District's management believes that it complied with the requirements of the PFIA and the District's investment policies.

As of August 31, 2021, Pleasant Grove Independent School District had the following investments:

Investment Type	Investment Maturities (in years)				
	Fair Value*	Less than 1	1-5	6-10	More than 10
Investment Pools **					
Lone Star ***	4,611,142	4,611,142	-	-	-
TexStar ***	6,963,768	6,963,768	-	-	-
Total	11,574,910	11,574,910			

*Fair value is the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Under GASB 72, all investments are recorded at fair value.

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

***Investments in local government pool are based upon a contract and not the security itself. Therefore, these types of investments are not categorized in Categories 1-3. The above investment pools, which are regulated by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net asset value of \$1.00.

The Lone Star Investment Pool (“Lone Star”), and the Texas Short Term Asset Reserve Program (“TexStar”) are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (“Trust Company”), which is authorized to operate TexPool.

Lone Star’s Advisory Board is composed of participants and other knowledgeable individuals representing public schools, public junior colleges, cities, counties, and other local governments. The purpose of the Advisory Board is to gather and exchange information from participants and nonparticipants relating to the operation of Lone Star Investment Pool. Lone Star employs an independent third-party bank, Mellon Bank, to perform custody and valuation services. Investment advisory services are provided by Standish Mellon and AMR Investments. An independent auditor, Ernst & Young LLP, provides an annual audit of Lone Star’s financial statements.

TexStar is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. The fund seeks to maintain a constant dollar objective and meet the requirements of the Texas PFI Act for local government investment pools.

Additional policies and contractual provisions governing deposits and investments for Pleasant Grove Independent School District are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposits; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; public funds investment pools; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States rated not less than A or its equivalent issued by national recognized statistical rating organizations (NRSROs). As of August 31, 2021, the District’s investments in public funds investment pools were rated AAA and AAAM by Standard & Poor’s.

Custodial Credit Risk for Investments - To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk - To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

Foreign Currency Risk for Investments - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currency.

Note D. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. The assessed value of the roll on January 1, 2020 upon which the levy for the 2021 fiscal year was based was \$976,147,244. The tax rates levied for the year ended August 31, 2021, to finance General Fund operations and the payment of principal and interest on general obligations long-term debt were \$1.0028 and \$0.365 per \$100 per valuation, respectively, for a total of \$1.3678 per \$100 valuation.

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 31 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 are collected.

Note E. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance (General Fund) and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Fund are based on 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.

Note F. Disaggregation of Receivables and Payables

Receivables at August 31, 2021, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Other Funds</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	265,090	994,989	82,062	1,342,141
Debt Service	90,072	3,832	16,594	110,498
Nonmajor Governmental Funds (Special Revenue)	-	278,241	10,288	288,529
Total - Governmental Activities	<u>355,162</u>	<u>1,277,062</u>	<u>108,944</u>	<u>1,741,168</u>
Amounts not scheduled for collection during the subsequent year	<u>(175,942)</u>	<u>-</u>	<u>-</u>	<u>(175,942)</u>

Payables at August 31, 2021, were as follows:

	<u>Accounts Payable</u>	<u>Salaries/ Benefits</u>	<u>Other Funds</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	182,558	1,370,690	-	1,553,248
Nonmajor Governmental Funds (Special Revenue)	93,705	103,744	108,944	306,393
Total - Governmental Activities	<u>276,263</u>	<u>1,474,434</u>	<u>108,944</u>	<u>1,859,641</u>

Note G. Capital Asset Activity

During the current year, the District purchased several capital assets, including a bus, fencing and a security system at the new elementary, a playground, school zone signage, and network upgrades.

In March 2019, the District signed a construction contract with Nabholz Construction as the Construction Manager at Risk for the construction of a new elementary campus. The District incurred costs of \$13,877,744 of the construction costs during the prior year. Current year costs total \$2,145,045 on the construction of the new campus. The total project cost was \$16,022,789. The elementary campus project was completed in November 2020.

The District also sold three fully depreciated vehicles for a total gain of \$2,750.

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Land	1,274,180	-	-	1,274,180
Building and Improvements	60,381,586	232,010	16,022,789	76,636,385
Furniture and Equipment	3,164,279	207,039	(50,831)	3,320,487
Construction in Progress	13,877,744	2,145,045	(16,022,789)	-
Totals at Historic Cost	<u>78,697,789</u>	<u>2,584,094</u>	<u>(50,831)</u>	<u>81,231,052</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(20,963,719)	(1,811,522)	-	(22,775,241)
Furniture and Equipment	(2,669,699)	(197,441)	50,831	(2,816,309)
Total Accumulated Depreciation	<u>(23,633,418)</u>	<u>(2,008,963)</u>	<u>50,831</u>	<u>(25,591,550)</u>
Governmental Activities, Net:				
Land	1,274,180	-	-	1,274,180
Building and Improvements	39,417,867	(1,579,512)	16,022,789	53,861,144
Furniture and Equipment	494,580	9,598	-	504,178
Construction in Progress	13,877,744	2,145,045	(16,022,789)	-
Capital Assets, Net	<u>55,064,371</u>	<u>575,131</u>	<u>-</u>	<u>55,639,502</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction	1,149,304
Instructional Resources and Media Services	20,754
Curriculum Development and Instructional Staff	9,145
Instructional Development	12,944
School Leadership	110,962
Guidance, Counseling and Evaluation Services	36,401
Health Services	13,159
Student (Pupil) Transportation	16,537
Food Services	53,021
Cocurricular/Extracurricular Activities	163,873
General Administration	126,204
Plant Maintenance and Operations	229,770
Security and Monitoring Service	11,901
Data Processing Services	54,988
Total Depreciation Expense - Governmental Activities	<u>2,008,963</u>

Note H. Maintenance Tax Note Obligations

On July 17, 2012 the District issued \$2,235,000 of Limited Tax Refunding Bonds, Series 2012. This issue redeemed in full Pleasant Grove Independent School District Maintenance Tax Note Refunding, Series 2008 in the amount of \$720,000 and Limited Tax Refunding Bonds, Series 2008 in the amount of \$1,495,000 and resolving other matters incident and related to the issuance, sale, payment and delivery of said Bonds. The Series 2012 has a stated interest rate of 2.25% and will mature in 2028 with a net present value savings to the District of approximately \$307,990. As a result, the Maintenance Tax Note Refunding Series 2008 and Limited Tax Refunding Bonds Series 2008 was considered defeased and the District removed the liability from its financial statements

In the governmental fund financial statements, maintenance tax note obligations of the District current requirements are accounted for in the General Fund in Functions 71, 72 and 73 -- Debt Service for payment of principal, interest and fees, respectively. During the year ended August 31, 2021, the District paid \$175,000 in principal, \$19,894 in interest, and \$150 in fees.

A summary of changes in Maintenance Tax Note Obligations for the year ended August 31, 2021 is as follows:

<u>Purpose</u>	<u>Stated Interest Rate</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding 09/01/20</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 08/31/21</u>
Refunding of 2008 Maintenance Note and 2008 Limited Tax Refunding Bonds Series 2012 due in annual installments through August 31, 2028	2.25%	2,235,000	965,000	-	175,000	790,000
			965,000	-	175,000	790,000

Maintenance Tax Note Obligations requirements are as follows:

<u>Year Ended August 31</u>	<u>Maintenance Tax Note Obligations - Direct Borrowing</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2022	105,000	16,594	121,594
2023	110,000	14,175	124,175
2024	110,000	11,700	121,700
2025	115,000	9,169	124,169
2026	115,000	6,581	121,581
2027-2028	235,000	5,343	240,343
	<u>790,000</u>	<u>63,562</u>	<u>853,562</u>

In the government-wide financial statements, maintenance note indebtedness is reflected in the Statement of Net Position. The deferred charge on refunding the maintenance note, net of accumulated amortization, totaled \$6,144 at August 31, 2021. Amortization of \$1,908 is reflected in the Statement of Activities for the year ended August 31, 2021. See Note L for more details.

Note I. Bonds Payable and Debt Service Requirements

On April 1, 2010, the District issued \$6,999,999 of Unlimited Tax School Building Bonds, Series 2010 issue to redeem in full Pleasant Grove Independent School District Unlimited Tax Refunding and School Building Bonds, Series 2001 in the amount of \$7,000,000. The Series 2010 was comprised of \$6,875,000 in Serial Current Interest Bonds with stated interest rate ranging between 2.00% through 4.00% and \$124,999 in Premium Capital Appreciation Bonds that had discounted principal balances of \$124,999 at the date of issue. The Premium Capital Appreciation Bonds matured at \$485,000 on February 15, 2015.

On April 4, 2013, the District issued \$8,274,990 of Unlimited Tax School Building Bonds, Series 2013 issued to redeem a portion Pleasant Grove Independent School District Unlimited Tax Refunding and School Building Bonds, Series 2007 in the amount of \$8,275,000. The Series 2013 was comprised of \$8,110,000 in Serial Current Interest Bonds with a stated interest rate of 3.5% and \$164,990 in Premium Capital Appreciation Bonds that had discounted principal balances of \$131,558 and \$33,432 at the date of issue. The Premium Capital Appreciation Bonds matured at \$545,000 and \$600,000 on August 15, 2013 and February 15, 2015, respectively. On October 10, 2017, the Board authorized the District to defease a portion of the outstanding bonds. The District deposited \$1,488,247 into an escrow fund titled "Special Series 2013 Pleasant Grove Independent School District Unlimited Tax Refunding Bonds 2017 Defeasance Escrow Fund" with Regions Bank, Houston, Texas. The defeased bonds are called for redemption and shall be redeemed on February 15, 2023, at the price of par and accrued interest to the date of redemption. The aggregate principal amount defeased is \$1,370,000. The cost of the defeasance to the District was \$10,500. The total amount of savings resulting from this transaction is \$530,652.

On July 1, 2014, the District issued \$8,634,999 of Unlimited Tax Refunding Bonds, Series 2014 issued to redeem a portion Pleasant Grove Independent School District Unlimited Tax Refunding and School Building Bonds, Series 2007 in the amount of \$8,635,000. The Series 2014 was comprised of \$8,020,000 in Serial Current Interest Bonds with a stated interest rate of 3.50-4.00% and \$614,999 in Premium Capital Appreciation Bond that had a discounted principal balance of \$614,999 at the date of issue. The Premium Capital Appreciation Bond matured at \$980,000 August 15, 2015.

On February 1, 2015, the District issued \$8,460,000 of Unlimited Tax Refunding Bonds, Series 2015 issued to redeem a portion of Pleasant Grove Independent School District Unlimited Tax Refunding and School Building Bonds, Series 2007 in the amount of \$10,032,467 representing the original principal amount of the Bonds of \$8,460,000, plus an original issue premium of \$1,626,797, less an Underwriters' discount of \$54,330. The Series 2015 was comprised of Current Interest Bonds with a stated interest rate of 3.00 – 5.00%.

On May 8, 2018, the taxpayers of the District approved a bond issue to construct, equip and renovate school buildings in the District and to pay the costs associated with the issuance of the Bonds. On June 26, 2018, the District issue \$17,945,000 of Unlimited Tax School Building Bonds, Series 2018. The stated interest rates range from 3.00% to 5.00%. The final payment on the bonds will be made February 15, 2043.

On December 16, 2020, the District issued \$3,875,000 of Unlimited Tax Refunding Bonds, Series 2020A to redeem Unlimited Tax School Building Bonds, Series 2010 in the amount of \$3,920,000. The Series 2020A was comprised of \$3,875,000 in Serial Current Interest Bonds and premium of \$189,356 at the date of issue and a stated interest rate of 2.00%-3.00%. The Series 2020A bonds are set to mature in 2025. The defeased bonds are called for redemption on December 16, 2020 at the price of par and accrued interest to the date of redemption in the amount of \$3,972,703, which is reflected in the Debt Service Fund as Other Financing Uses. The refunding resulted in a gross savings of \$295,805 and net present value benefit of \$299,883. Bond proceeds are accounted for in the Debt Service Fund as other financing sources in the amount of \$3,875,000 for refunding bond issued and paid.

On December 16, 2020, the District issued \$16,615,000 of Unlimited Tax Refunding Bonds, Series 2020B to redeem Unlimited Tax Refunding Bonds, Series 2013 in the amount of \$6,740,000, a portion of Unlimited Tax Refunding Bonds, Series 2014 in the amount of \$6,265,000, and a portion of Unlimited Tax Refunding Bonds, Series 2015 in the amount of \$3,630,000. The Series 2020B was comprised of \$16,615,000 in Serial Current Interest Bonds and premium of \$2,127,137 at the date of issue and a stated interest rate of 1.78%-5.00%. The Series 2020B bonds are set to mature in 2032. The District deposited \$18,641,561 into an escrow fund, which is reflected in the Debt Service Fund as Other Financing Uses. The defeased bonds are called for redemption and shall be redeemed February 15, 2023 and February 15, 2024. The aggregate principal amount defeased is \$16,635,000. The refunding resulted in a gross savings of \$1,228,788 and net present value benefit of \$1,232,615. Bond proceeds are accounted for in the Debt Service Fund as other financing sources in the amount of \$16,615,000 for refunding bond issued and paid.

In the governmental fund financial statements, the current expenditures for principal and in interest expenditures are accounted for in the Debt Service Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance. During the year ended August 31, 2021, the District paid \$1,965,000 in principal, \$1,469,499 in interest, and \$352,729 in fees.

A summary of changes in bonded indebtedness for the year ended August 31, 2021 is as follows:

	Stated Interest Rate	Amounts Original Issue	Amounts Outstanding 09/01/20	Issuance / Accretion	Retired	Amounts Outstanding 08/31/21
Unlimited Tax Refunding Bonds, Series 2010						
Serial Current Interest Bonds due in annual installments through February 15, 2026	2.0-4.0%	6,875,000	3,920,000	- (a)	3,920,000	-
Unlimited Tax Refunding Bonds, Series 2013						
Serial Current Interest Bonds due February 15, 2030, 2031 and 2032	3.5%	8,110,000	6,740,000	- (a)	6,740,000	-
Unlimited Tax Refunding Bonds, Series 2014						
Serial Current Interest Bonds due February 15, 2023, 2024, 2028-2030	3.5-4.0%	8,020,000	8,020,000	- (a)	6,265,000	1,755,000
Unlimited Tax Refunding Bonds, Series 2015						
Serial Current Interest Bonds due February 15, 2018 -2022, 2023, 2025-2027	3.0-5.0%	8,460,000	6,805,000	- (a) (b)	3,630,000 790,000	2,385,000
Unlimited Tax School Bldg Bonds- Series 2018						
due in annual installments through February 15, 2043	3.0-5.0%	17,945,000	17,725,000	- (b)	130,000	17,595,000
Unlimited Tax Refunding Bonds, Series 2020A						
Serial Current Interest Bonds due February 15, 2021-2025	2.0-3.0%	3,875,000	-	3,875,000 (b)	760,000	3,115,000
Unlimited Tax Refunding Bonds, Series 2020B						
Serial Current Interest Bonds due February 15, 2021, 2026-2032	1.72% - 5.0%	16,615,000	-	16,615,000 (b)	285,000	16,330,000
			<u>43,210,000</u>	<u>20,490,000</u>	<u>22,520,000</u>	<u>41,180,000</u>

- (a) \$20,555,000 refunded bonds
- (b) \$1,965,000 principal paid on bonds

Bonded debt service requirements are as follows:

Year Ended <u>August 31</u>	General Obligation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2022	1,730,000	1,632,029	3,362,029
2023	1,820,000	1,571,579	3,391,579
2024	1,895,000	1,507,579	3,402,579
2025	2,035,000	1,434,979	3,469,979
2026	1,305,000	1,363,704	2,668,704
2027-2031	12,380,000	5,308,246	17,688,246
2032-2036	7,820,000	3,724,115	11,544,115
2037-2041	8,215,000	2,067,375	10,282,375
2042-2043	3,980,000	201,750	4,181,750
	<u>41,180,000</u>	<u>18,811,356</u>	<u>59,991,356</u>

In the government-wide financial statements, bonded indebtedness of the District is reflected in the Statement of Net Position. Bond premium/discount proceeds are deferred and amortized over the life of the bonds. Amortization of \$510,103 is reflected in the Statement of Activities for the year ended August 31, 2021.

	<u>Series 2010</u>	<u>Series 2013</u>	<u>Series 2014</u>	<u>Series 2015</u>	<u>Series 2018</u>	<u>Series 2020A</u>	<u>Series 2020B</u>	<u>Total</u>
Premium on issuance of bonds	(83,537)	(470,506)	(406,319)	(677,876)	(2,033,338)	-	-	(3,671,576)
Current year amortization	-	-	30,442	131,817	112,752	50,650	184,442	510,103
Refunded premium	83,537	470,506	316,929	290,809	-	(189,356)	(2,127,136)	(1,154,711)
Premium on issuance of bonds, net	<u>-</u>	<u>-</u>	<u>(58,948)</u>	<u>(255,250)</u>	<u>(1,920,586)</u>	<u>(138,706)</u>	<u>(1,942,694)</u>	<u>(4,316,184)</u>

The deferred charge on refunding bonds, net of accumulated amortization, totaled \$2,148,303 at August 31, 2021. Amortization of \$272,758 is reflected in the Statement of Activities for the year ended August 31, 2021. See Note L for more details.

Pleasant Grove Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Pleasant Grove Independent School District.

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

Note J. Accumulated Leave Benefits Payable

Certain employees earn vacation and additional days worked beyond commitment, which may be either taken or accumulated. Carryover is limited on vacation and additional days worked beyond commitment to no more than ten days. Vacation and additional days worked beyond commitment payable at August 31, 2021 totaled \$41,703.

Employees earn leave, which may either be taken or accumulated. Employees who retire from Pleasant Grove Independent School District are entitled to payment of their accumulated local personal leave in a lump sum payment. Vested accumulated leave benefits payable at August 31, 2021 totaled \$39,863.

A summary of changes in the accumulated leave benefits liability follows:

Balance September 1, 2020	101,557
Additions	-
Deductions	<u>(19,991)</u>
Balance August 31, 2021	<u>81,566</u>

Note K. Changes in Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Notes and Bonds Payable:					
Maintenance Tax Note Obligations	965,000	-	175,000	790,000	105,000
General Obligation Bonds	43,210,000	20,490,000	22,520,000	41,180,000	1,730,000
Premium/Discount on Issuance of Bonds, Net	3,671,576	2,316,492	1,671,884	4,316,184	-
Total Bonds and Notes Payable	<u>47,846,576</u>	<u>22,806,492</u>	<u>24,366,884</u>	<u>46,286,184</u>	<u>1,835,000</u>
Other Liabilities:					
Accumulated Leave Benefits Liability	101,557	-	19,991	81,566	-
Net Pension Liability	4,736,361	556,970	378,622	4,914,709	-
Net OPEB Liability	6,552,456	-	977,590	5,574,866	-
Total Other Liabilities	<u>11,390,374</u>	<u>556,970</u>	<u>1,376,203</u>	<u>10,571,141</u>	<u>-</u>
Total Governmental Activities					
Long-term Liabilities	<u>59,236,950</u>	<u>23,363,462</u>	<u>25,743,087</u>	<u>56,857,325</u>	<u>1,835,000</u>

Note L. Deferred Outflows of Resources – Deferred Charges for Refundings (Government Wide)

The following is a summary of changes in deferred outflows of resources for the year ended August 31, 2021:

	Beginning Balance	Additions	Deduction	Ending Balance
Deferred charges on refunding notes	8,052	-	(1,908)	6,144
Deferred charges on refunding bonds:				
Series 2013	762,362	- (a)	(762,362)	-
Series 2014	485,520	- (a)	(379,240)	70,086
Series 2014			(b) (36,194)	
Series 2015	275,697	- (a)	(118,274)	103,812
Series 2015			(b) (53,611)	
Series 2020A	-	(30,835) (b)	8,248	(22,587)
Series 2020B	-	2,188,193 (b)	(191,201)	1,996,992
Total	<u>1,531,631</u>	<u>2,157,358</u>	<u>(1,534,542)</u>	<u>2,154,447</u>

(a) Refunded bonds \$1,259,876

(b) Deferred charge amortization \$274,666

Note M. Defined Benefit Pension Plan (TRS)

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

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.texas.gov/TRS%20Documents/cafr2019.pdf, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512)542-6592.

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

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

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

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

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

Contribution Rates

	2020	2021
Member (Employees)	7.7%	7.7%
Employer (District)	7.5%	7.5%
Non-Employer Contributing Entity (State)	7.5%	7.5%
PGISD Fiscal Year Member Contributions	1,025,977	1,051,251
PGISD Fiscal Year Employer Contributions	383,054	386,746
PGISD NECE On-Behalf Contributions	617,122	810,891

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
PGISD's proportionate share of the net pension liability	7,578,393	4,914,709	2,750,524

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2021, Pleasant Grove ISD reported a liability of \$4,914,709 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Pleasant Grove ISD. The amount recognized by Pleasant Grove ISD as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Pleasant Grove ISD were as follows:

District's proportionate share of the collective net pension liability	\$ 4,914,709
State's proportionate share that is associated with the District	<u>10,525,800</u>
Total	<u>\$ 15,440,509</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 employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 thru August 31, 2020.

At August 31, 2020 the employer's proportion of the collective net pension liability was 0.0091764298%, which was an increase (decrease) of 0.0000650864% 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, Pleasant Grove School recognized pension expense of \$2,175,819 and revenue of \$1,266,020 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,974	\$ 137,156
Changes in actuarial assumptions	1,140,387	484,885
Difference between projected and actual investment earnings	99,494	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	315,235	20,566
Total as of August 31, 2020 measurement date	\$ 1,564,090	\$ 642,607
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	386,746	-
Total as of August 31, 2021	\$ 1,950,836	\$ 642,607

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

Year ended August 31:	Pension Expense Amount
2022	318,946
2023	299,037
2024	267,279
2025	80,887
2026	(44,891)
Thereafter	225
	<u>\$ 921,483</u>

Note N. Defined Other Post-Employment Benefit Plan

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

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

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

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care’s fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/Pages/aboutpublications.aspx>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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

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

	TRS-Care Monthly for Retirees	
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1020	999
<i>*or surviving spouse</i>		

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

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

Contribution Rates		
	<u>2020</u>	<u>2021</u>
Active Employee	0.65%	0.65%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Non-Employer Contributing Entity (State)	1.25%	1.25%
PGISD's Fiscal Year Member Contributions	86,608	88,742
PGISD's Fiscal Year Employer Contributions	111,465	114,426
Measurement Year NECE On-behalf Contributions	130,659	149,780

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 hiring a TRS retiree, employers are required to pay TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$280.8 million in fiscal year 2020 to maintain premiums and benefit levels in the 2020-2021 biennium.

Actuarial Assumptions

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

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

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

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

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

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

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

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

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

	1% Decrease in Discount Rate (1.33%)	Current Single Discount Rate (2.33%)	1% Increase in Discount Rate (3.33%)
PGISD's proportionate share of the Net OPEB Liability	6,689,827	5,574,866	4,694,208

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2021 the District reported a liability of \$5,574,866 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective Net OPEB Liability	\$ 5,574,866
State's proportionate share that is associated with the District	<u>7,491,284</u>
Total	<u>\$ 13,066,150</u>

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

At August 31, 2020 the employer's proportion of the collective Net OPEB Liability was 0.0146650991%, compared to 0.0008095564% August 31, 2019.

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of Net OPEB Liability	4,553,952	5,574,866	6,934,581

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 291,898	\$ 2,551,344
Changes in actuarial assumptions	343,853	1,530,887
Net Difference between projected and actual investment earnings	1,811	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	514,282	253,161
Total as of August 31, 2020 measurement date	1,151,844	4,335,392
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	114,426	
Total as of August 31, 2021 fiscal year-end	\$ 1,266,270	\$ 4,335,392

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

Year ended August 31:	OPEB Expense Amount
2022	\$ (544,005)
2023	(544,247)
2024	(544,386)
2025	(544,348)
2026	(395,442)
Thereafter	<u>(611,120)</u>
	<u>\$ (3,183,548)</u>

For the year ended August 31, 2021, the District recognized OPEB expense of (\$100,295) and revenue of (\$52,017) for support provided by the State.

Note O. Medicare Part D (TRS)

Federal Government Retiree Drug Subsidy - The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity.

The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submission by reporting entities for the month of May. Any questions about payroll amounts should be directed to a reporting entity's payroll contact.

Contribution amounts are as follows: State Contributions for Medicare Part D made on behalf of Pleasant Grove Independent School District's employees were \$60,490 for the year ended August 31, 2021. State Contributions for Medicare Part D made on behalf of Pleasant Grove Independent School District's employees were \$56,413 for the year ended August 31, 2020. State Contributions for Medicare Part D made on behalf of Pleasant Grove Independent School District's employees were \$42,969 for the year ended August 31, 2019.

Note P. Commitments and Contingencies

Litigation - The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

Grant Programs - The District participates in numerous state and federal 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 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 at August 31, 2021 may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

Note Q. Due From/To Other Governments

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

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Entitlements</u>	<u>Local Agency</u>	<u>Total</u>
Governmental Activities:				
Due From Other Governments:				
General Fund	984,329	-	10,660	994,989
Debt Service Fund	-	-	3,832	3,832
Nonmajor Governmental Funds (Special Revenue)	-	278,241	-	278,241
	<u>984,329</u>	<u>278,241</u>	<u>14,492</u>	<u>1,277,062</u>

Note R. Unearned Revenues

Unearned revenue at August 31, 2021 consisted of the following:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Funds Total</u>
Athletic receipts	25,813	-	25,813
Tuition	8,220	-	8,220
Food Service receipts	-	23,471	23,471
Instructional material allotment	-	119,876	119,876
Other special revenue funds	-	10,720	10,720
	<u>34,033</u>	<u>154,067</u>	<u>188,100</u>

Note S. Deferred Inflows of Resources (Governmental Funds)

Unavailable revenue – property taxes at August 31, 2021 consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Governmental Funds Total</u>
Net uncollected tax revenue	121,299	42,378	163,677
Total unavailable revenue	<u>121,299</u>	<u>42,378</u>	<u>163,677</u>

Note T. Revenue from Local and Intermediate Sources

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

<u>Revenue Sources</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Funds Total</u>
Property taxes and related income	9,801,694	3,566,337	-	-	13,368,031
Investment income	5,961	839	5,292	-	12,092
Food service revenue	-	-	-	280,394	280,394
Athletic	113,208	-	-	-	113,208
Tuition and fees	115,542	-	-	-	115,542
Rent	1,100	-	-	-	1,100
Insurance Recovery	21,117	-	-	-	21,117
Foundation, gifts	-	-	-	57,505	57,505
Other local sources	165,785	9,709	-	486,046	661,540
	<u>10,224,407</u>	<u>3,576,885</u>	<u>5,292</u>	<u>823,945</u>	<u>14,630,529</u>

Note U. General Fund Federal Source Revenues

<u>Program or Source</u>	<u>ALN</u>	<u>Amount</u>
School Health and Related Services (SHARS)	N/A	29,217
ERATE	N/A	175,248
RLOC Prior Purchasing Program	21.019	191,873
		<u>\$ 396,338</u>

Note V. Shared Service Arrangements

The District participates in several Shared Service Arrangements (“SSA”) described as follows:

State/Local Funded - Bowie County Schools Transportation Department fiscal agent: The District participates in a state/local funded SSA which provides transportation services to member districts. In addition to the District, other member districts include all the districts in Bowie County. All services are provided by the fiscal agent. The Texas Education Agency and the member districts provide funds to the fiscal agent. Although a portion of the funding received by the fiscal agent from the Texas Education Agency is attributable to the District’s participation, the District does not account for revenues or expenditures of this program and does not disclose them in these financial statements. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District has accounted for their portion of the payment of the activities of the SSA in the General Fund Function 93, Shared Services Arrangements, and has accounted for the payment using Model 3 in the SSA section of the Resource Guide. These payments totaled \$223,119 for the year ended August 31, 2021.

A detail of Function 93 is as follows:

General Fund - Function 93:	
SSA - Transportation	<u>223,119</u>

Federally Funded – Region VIII Service Center fiscal agent: The District participates in federally funded Shared Services Arrangements which provide vocational education services and migratory education services to member districts. In addition to the District, there are several other member districts. Although a portion of the funding received by the fiscal agent from the Texas Education Agency is attributable to the District’s participation, the District does not account for revenues or expenditures of these programs and does not disclose them in these financial statements. The fiscal agent is responsible for all financial activities of these shared service arrangements.

Note W. Subsequent Events

Management evaluated subsequent events after the date of the balance sheet and prior to the release of these financial statements which was January 12, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 9,545,776	\$ 9,545,776	\$ 10,224,407	\$ 678,631
5800 State Program Revenues	10,988,817	10,988,817	11,835,948	847,131
5900 Federal Program Revenues	50,000	50,000	396,338	346,338
5020 Total Revenues	20,584,593	20,584,593	22,456,693	1,872,100
EXPENDITURES:				
Current:				
0011 Instruction	11,759,641	12,500,000	12,496,795	3,205
0012 Instructional Resources and Media Services	96,794	275,000	242,306	32,694
0013 Curriculum and Instructional Staff Development	187,500	185,000	106,764	78,236
0021 Instructional Leadership	154,740	160,000	151,123	8,877
0023 School Leadership	1,274,932	1,300,000	1,295,474	4,526
0031 Guidance, Counseling, and Evaluation Services	394,753	410,000	407,970	2,030
0033 Health Services	152,467	160,000	153,634	6,366
0034 Student (Pupil) Transportation	205,187	221,700	193,068	28,632
0036 Extracurricular Activities	1,142,680	1,500,000	1,429,793	70,207
0041 General Administration	1,271,911	1,550,000	1,473,423	76,577
0051 Facilities Maintenance and Operations	2,265,582	2,753,300	2,607,009	146,291
0052 Security and Monitoring Services	114,774	118,400	104,026	14,374
0053 Data Processing Services	505,326	650,000	641,981	8,019
Debt Service:				
0071 Principal on Long-Term Debt	175,000	175,000	175,000	-
0072 Interest on Long-Term Debt	25,000	25,000	19,894	5,106
0073 Bond Issuance Cost and Fees	700	700	150	550
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	810,000	-	810,000
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	275,000	275,000	223,119	51,881
0099 Other Intergovernmental Charges	225,000	225,000	190,853	34,147
6030 Total Expenditures	20,226,987	23,294,100	21,912,382	1,381,718
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	357,606	(2,709,507)	544,311	3,253,818
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	(31,087)	(31,087)
1200 Net Change in Fund Balances	357,606	(2,709,507)	513,224	3,222,731
0100 Fund Balance - September 1 (Beginning)	8,701,945	8,701,945	8,701,945	-
3000 Fund Balance - August 31 (Ending)	\$ 9,059,551	\$ 5,992,438	\$ 9,215,169	\$ 3,222,731

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

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018
District's Proportion of the Net Pension Liability (Asset)	0.00917643%	0.009111343%	0.009190657%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,914,709	\$ 4,736,361	\$ 5,058,761
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	10,525,800	9,165,771	9,790,275
Total	<u>\$ 15,440,509</u>	<u>\$ 13,902,132</u>	<u>\$ 14,849,036</u>
District's Covered Payroll	\$ 13,325,277	\$ 11,534,484	\$ 11,105,587
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	36.88%	41.06%	45.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.54%	75.24%	73.74%

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

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

<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.009136099%	0.008589306%	0.0088437%	0.0039584%
\$ 2,921,232	\$ 3,245,771	\$ 3,126,130	\$ 1,057,343
6,132,262	7,574,429	7,289,680	6,643,653
<u>\$ 9,053,494</u>	<u>\$ 10,820,200</u>	<u>\$ 10,415,810</u>	<u>\$ 7,700,996</u>
\$ 11,276,722	\$ 11,047,817	\$ 10,696,865	\$ 10,633,842
25.90%	29.38%	29.22%	9.94%
82.17%	78.00%	78.43%	83.25%

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2021

	2021	2020	2019
Contractually Required Contribution	\$ 386,746	\$ 383,054	\$ 311,860
Contribution in Relation to the Contractually Required Contribution	(386,746)	(383,054)	(311,860)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 13,653,328	\$ 13,325,277	\$ 11,534,484
Contributions as a Percentage of Covered Payroll	2.83%	2.87%	2.70%

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

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

	2018	2017	2016	2015
\$	309,510	\$ 299,428	\$ 272,904	\$ 261,866
	(309,510)	(299,428)	(272,904)	(261,866)
\$	-	\$ -	\$ -	\$ -
\$	11,105,587	\$ 11,276,722	\$ 11,047,817	\$ 10,696,865
	2.79%	2.66%	2.47%	2.45%

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

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.014665099%	0.013855543%	0.014377906%	0.014227513%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 5,574,866	\$ 6,552,456	\$ 7,179,020	\$ 6,187,012
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	7,491,284	8,706,748	9,720,387	8,876,706
Total	<u>\$ 13,066,150</u>	<u>\$ 15,259,204</u>	<u>\$ 16,899,407</u>	<u>\$ 15,063,718</u>
District's Covered Payroll	\$ 13,325,277	\$ 11,534,484	\$ 11,105,587	\$ 11,276,722
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	41.84%	56.81%	64.64%	54.87%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.99%	2.66%	1.57%	0.91%

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

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

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

	2021	2020	2019	2018
Contractually Required Contribution	\$ 114,426	\$ 111,465	\$ 98,333	\$ 92,213
Contribution in Relation to the Contractually Required Contribution	(114,426)	(111,465)	(98,333)	(92,213)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 13,653,328	\$ 13,325,277	\$ 11,534,484	\$ 11,105,587
Contributions as a Percentage of Covered Payroll	0.84%	0.84%	0.85%	0.83%

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

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

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

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms.

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

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

Changes of Assumptions.

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

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefits.

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

Changes in Assumptions.

The following assumptions, methods and plan changes which are specific to TRS-Care were updated from the prior year's report:

- The discount rate changed from 2.64 percent as of August 31, 2019 to 2.33 percent, as of August 31, 2020. This change increased the Total OPEB Liability.
- The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. This change lowered the Total OPEB Liability.
- The ultimate health care trend assumption was lowered from 4.50 percent to 4.25 percent as a result of Congress' repeal of the excise (Cadillac) tax on high-cost employer health plans in December 2019. This change lowered the Total OPEB Liability.

COMBINING SCHEDULES

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2021

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS			
1110 Cash and Cash Equivalents	\$ (33,739)	\$ 32,351	\$ (351)
1240 Due from Other Governments	73,813	71,030	469
1260 Due from Other Funds	-	-	-
1000 Total Assets	<u>\$ 40,074</u>	<u>\$ 103,381</u>	<u>\$ 118</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	2,435	5,791	118
2160 Accrued Wages Payable	9,824	35,754	-
2170 Due to Other Funds	27,815	61,836	-
2300 Unearned Revenue	-	-	-
2000 Total Liabilities	<u>40,074</u>	<u>103,381</u>	<u>118</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 40,074</u>	<u>\$ 103,381</u>	<u>\$ 118</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 ESSER -School Emergency Relief	282 ESSER-School Emergency Relief III	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ 261,591	\$ (12,620)	\$ -	\$ (5,208)	\$ (1,334)	\$ 141,667	\$ 10,816	\$ 261,683
60,864	15,797	-	54,934	1,334	-	-	-
-	-	-	-	-	-	-	10,288
<u>\$ 322,455</u>	<u>\$ 3,177</u>	<u>\$ -</u>	<u>\$ 49,726</u>	<u>\$ -</u>	<u>\$ 141,667</u>	<u>\$ 10,816</u>	<u>\$ 271,971</u>
\$ 81,046	\$ -	\$ -	\$ -	\$ -	\$ 8,500	\$ -	\$ 4,159
-	-	-	82	-	-	96	-
-	-	-	49,644	-	-	-	-
2,621	3,177	-	-	-	13,291	-	-
23,471	-	-	-	-	119,876	10,720	-
<u>107,138</u>	<u>3,177</u>	<u>-</u>	<u>49,726</u>	<u>-</u>	<u>141,667</u>	<u>10,816</u>	<u>4,159</u>
215,317	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	267,812
<u>215,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>267,812</u>
<u>\$ 322,455</u>	<u>\$ 3,177</u>	<u>\$ -</u>	<u>\$ 49,726</u>	<u>\$ -</u>	<u>\$ 141,667</u>	<u>\$ 10,816</u>	<u>\$ 271,971</u>

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2021

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 55,498	\$ 710,354
1240 Due from Other Governments	-	278,241
1260 Due from Other Funds	-	10,288
1000 Total Assets	<u>\$ 55,498</u>	<u>\$ 998,883</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ 93,705
2150 Payroll Deductions and Withholdings Payable	-	8,522
2160 Accrued Wages Payable	-	95,222
2170 Due to Other Funds	204	108,944
2300 Unearned Revenue	-	154,067
2000 Total Liabilities	<u>204</u>	<u>460,460</u>
FUND BALANCES		
Restricted Fund Balance:		
3450 Federal or State Funds Grant Restriction	-	215,317
3490 Other Restricted Fund Balance	55,294	55,294
Committed Fund Balance:		
3545 Other Committed Fund Balance	-	267,812
3000 Total Fund Balances	<u>55,294</u>	<u>538,423</u>
4000 Total Liabilities and Fund Balances	<u>\$ 55,498</u>	<u>\$ 998,883</u>

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	223,768	359,675	8,198
5020 Total Revenues	<u>223,768</u>	<u>359,675</u>	<u>8,198</u>
EXPENDITURES:			
Current:			
0011 Instruction	223,768	359,675	8,198
0031 Guidance, Counseling, and Evaluation Services	-	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	-	-	-
0052 Security and Monitoring Services	-	-	-
6030 Total Expenditures	<u>223,768</u>	<u>359,675</u>	<u>8,198</u>
1100 Excess of Revenues Over Expenditures	-	-	-
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 ESSER -School Emergency Relief	282 ESSER-School Emergency Relief III	289 Other Federal Special Revenue Funds	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds
\$ 280,394	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 486,046
3,413	-	-	-	-	72,955	58,692	7
452,239	44,977	-	54,934	25,400	-	-	-
736,046	44,977	-	54,934	25,400	72,955	58,692	486,053
-	44,977	-	37,920	25,400	72,955	23,773	-
-	-	-	17,014	-	-	-	-
619,022	-	-	-	-	-	-	-
-	-	-	-	-	-	-	483,421
-	-	-	-	-	-	34,919	-
619,022	44,977	-	54,934	25,400	72,955	58,692	483,421
117,024	-	-	-	-	-	-	2,632
31,087	-	-	-	-	-	-	-
148,111	-	-	-	-	-	-	2,632
67,206	-	-	-	-	-	-	265,180
\$ 215,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,812

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 57,505	\$ 823,945
5800 State Program Revenues	-	135,067
5900 Federal Program Revenues	-	1,169,191
5020 Total Revenues	<u>57,505</u>	<u>2,128,203</u>
EXPENDITURES:		
Current:		
0011 Instruction	45,019	841,685
0031 Guidance, Counseling, and Evaluation Services	-	17,014
0035 Food Services	-	619,022
0036 Extracurricular Activities	-	483,421
0052 Security and Monitoring Services	-	34,919
6030 Total Expenditures	<u>45,019</u>	<u>1,996,061</u>
1100 Excess of Revenues Over Expenditures	12,486	132,142
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	31,087
1200 Net Change in Fund Balance	12,486	163,229
0100 Fund Balance - September 1 (Beginning)	<u>42,808</u>	<u>375,194</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 55,294</u>	<u>\$ 538,423</u>

REQUIRED T.E.A. SCHEDULES

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

Last 10 Years Ended 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	1.090000	0.350000	823,688,226
2014	1.090000	0.350000	847,891,432
2015	1.090000	0.350000	856,637,248
2016	1.090000	0.350000	861,230,039
2017	1.090000	0.350000	874,445,213
2018	1.090000	0.350000	896,213,732
2019	1.090000	0.365000	916,989,862
2020	1.016480	0.365000	939,576,278
2021 (School year under audit)	1.002800	0.365000	976,147,244
1000 TOTALS			

	(10) Beginning Balance 9/1/2020	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2021
\$	72,437	\$ -	\$ 2,924	\$ 939	\$ (2,449)	\$ 66,125
	15,976	-	954	306	(14)	14,702
	15,127	-	940	302	(12)	13,873
	17,215	-	1,200	385	(14)	15,616
	19,769	-	1,588	510	(10)	17,661
	23,388	-	1,359	437	(446)	21,146
	28,427	-	2,586	831	(284)	24,726
	37,149	-	1,255	420	(5,742)	29,732
	119,721	-	49,072	17,620	(13,271)	39,758
	-	13,351,742	9,707,435	3,534,190	1,705	111,822
\$	<u>349,210</u>	\$ <u>13,351,742</u>	\$ <u>9,769,313</u>	\$ <u>3,555,940</u>	\$ <u>(20,537)</u>	\$ <u>355,162</u>

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - FOOD SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 289,238	\$ 289,238	\$ 280,394	\$ (8,844)
5800 State Program Revenues	3,500	3,500	3,413	(87)
5900 Federal Program Revenues	414,327	414,327	452,239	37,912
5020 Total Revenues	707,065	707,065	736,046	28,981
EXPENDITURES:				
Current:				
0035 Food Services	696,537	696,537	619,022	77,515
6030 Total Expenditures	696,537	696,537	619,022	77,515
1100 Excess of Revenues Over Expenditures	10,528	10,528	117,024	106,496
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	31,087	31,087
1200 Net Change in Fund Balances	10,528	10,528	148,111	137,583
0100 Fund Balance - September 1 (Beginning)	67,206	67,206	67,206	-
3000 Fund Balance - August 31 (Ending)	\$ 77,734	\$ 77,734	\$ 215,317	\$ 137,583

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2021

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,585,678	\$ 3,585,678	\$ 3,576,885	\$ (8,793)
5800 State Program Revenues	-	-	68,956	68,956
5020 Total Revenues	3,585,678	3,585,678	3,645,841	60,163
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,510,000	1,965,000	1,965,000	-
0072 Interest on Long-Term Debt	1,844,200	1,844,200	1,469,499	374,701
0073 Bond Issuance Cost and Fees	2,000	2,000	352,729	(350,729)
6030 Total Expenditures	3,356,200	3,811,200	3,787,228	23,972
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	229,478	(225,522)	(141,387)	84,135
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued	-	20,490,000	20,490,000	-
7916 Premium or Discount on Issuance of Bonds	-	2,316,493	2,316,493	-
8949 Other (Uses)	-	(22,614,264)	(22,614,264)	-
7080 Total Other Financing Sources (Uses)	-	192,229	192,229	-
1200 Net Change in Fund Balances	229,478	(33,293)	50,842	84,135
0100 Fund Balance - September 1 (Beginning)	2,699,458	2,699,458	2,699,458	-
3000 Fund Balance - August 31 (Ending)	\$ 2,928,936	\$ 2,666,165	\$ 2,750,300	\$ 84,135

PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2021

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	1,125,143
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	613,442

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	36,775
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35)	41,413

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



WILF & HENDERSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Independent Auditors' Report

Board of Trustees
Pleasant Grove Independent School District
8500 North Kings Highway
Texarkana, TX 75503

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pleasant Grove Independent School District (the District), as of and for the year ended August 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2022.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wilf & Henderson, P.C.

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

January 12, 2022



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

Independent Auditor's Report

Board of Trustees
Pleasant Grove Independent School District
8500 North Kings Highway
Pleasant Grove, TX 75503

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Pleasant Grove Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Pleasant Grove Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2021.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-1, that we consider to be a significant deficiency.

Pleasant Grove Independent School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Pleasant Grove Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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

Wilf & Henderson, P.C.

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

January 12, 2022

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2021**

I. Summary of the Auditor's Results:

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

School Breakfast Program – Cash Assistance	CFDA # 10.553
National School Lunch Program – Cash Assistance	CFDA # 10.555
National School Lunch Program – Non-Cash Assistance	CFDA #10.555

- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- I. Pleasant Grove Independent School District was determined to be a low-risk auditee.

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

No findings were required to be reported.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

U.S DEPARTMENT OF AGRICULTURE
PASSED THROUGH TEXAS DEPARTMENT OF AGRICULTURE
CHILD NUTRITION CLUSTER (CASH ASSISTANCE) – CFDA # 10.555 AND 10.553
AUDIT PERIOD – YEAR ENDED AUGUST 31, 2021

2021-1 Procurement and Suspension and Debarment – Internal Control

Criteria: Title 7 *U.S. Code of Federal Regulations (CFR)* § 210.16 requires that any school district that employs a food service management company in the operation of its nonprofit school food service program must ensure that the food service operation is in conformance with the District’s agreement under the School Breakfast Program and National School Lunch Program.

Condition: The District did not establish controls and procedures to ensure costs billed to the District’s child nutrition program were accurate and allowable.

Cause: Lack in internal controls and management oversight.

Effect or potential effect: Without adequate internal controls to monitor a cost-reimbursable contract, reimbursements for unallowable costs could be charged to the District’s nonprofit food service account.

Context: Examination of contract with a food service management company and establish controls and procedures for monitoring the contract.

Recommendation: District management should establish procedures and internal controls to properly monitor the cost-reimbursable contract with a food service management company.

Views of responsible officials: The District will put procedures and internal controls in place to properly monitor the cost-reimbursable contract with the food service management company to ensure that all costs billed to the District are allowable and accurate. The Director of Finance will monitor this procedures to ensure compliance.

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2021**

There were no prior year audit findings.

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2021**

Findings and Questioned Costs for Federal Awards

2021-1 Procurement and Suspension and Debarment – Internal Control

Action: The District will put procedures and internal controls in place to properly monitor the cost-reimbursable contract with a food service management contract. Additional comments are on pages 76-77.

Contact Person: Derick Sibley, Director of Finance

Anticipated Completion Date: Immediately



PLEASANT GROVE

INDEPENDENT SCHOOL DISTRICT

On April 2, 2021, Pleasant Grove ISD received notification from the Texas Department of Agriculture (TDA) that the district had been paying Chartwells, the district's food service management company (FSMC), for items that were deemed unallowable charges. Many of these charges pertained to secondary billing items that had to be covered exclusively by the Chartwells administrative and management fee. According to the original RFP, the

"FSMC must (1) separately identify, for each cost submitted for payment to the school food authority, the amount of an Allowable Cost and the amount that is unallowable, or (2) FSMC must exclude all unallowable cost from its billing documents and certify that only allowable costs are submitted for payment and that records have been established that maintain the visibility of unallowable costs, including directly associated costs in a manner suitable for Contract cost determination and verification." (Section E - Purchases)

"All program expenses not otherwise defined in the Contract will be assumed to be covered by the FSMC under the General and Administrative Expense Fee. All indirect and overhead costs must be included in the General and Administrative Expense Fee." (Section J – Financial Terms)

Under the Federal False Claims Act, any improper claim for payment may result in penalties for every document making a false claim for payment. As such, the district assumed that Chartwells knew, understood, and was complying with the contract under the original RFP.

According to the RFP, Section J – Financial Terms, the following charges must be included in the General and Administrative Expense Fee and may not be charged in any other expenses. However, Chartwell charged the district these individual expenses on monthly invoices.

- Maint SoftwareMid
- MySTAFF
- MyFi
- MyCompass
- My Admin Accounting
- Webtrition
- Training
- Recruiting

According to the letter from TDA, the following charge is required for a vendor to have in order to be considered to bid and is an unallowable cost for the school district. However, Chartwells charged the district this expense on monthly invoices.

- Insurance Other

Because of the unallowable charges determined by TDA during the procurement review, the district performed an audit on the Chartwells invoices from August 2017 through June 2021. The purpose of the audit was to determine how much in unallowable charges were charged to the district since the inception of its contract with Chartwells in 2017. The final audit determined that Chartwells had invoiced the district a total of \$65,712.63 in unallowable charges.

Since notification from TDA on the unallowable charge, the district is not currently paying these unallowable charges, even though they continue to appear on the monthly invoices from Chartwells. The district has sought reimbursement from Chartwells for these charges. Chartwells stands by their claim that since the close of the review with Pleasant Grove ISD, TDA has reversed course on calling these unallowable charges. However, communication with TDA states, "the charges that were previously deemed as improperly charged to the district are still considered unallowable."

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
RLOC Prior Purchase Reimbursement Project	21.019	522022003	\$ 191,873
ESEA, Title I, Part A - Improving Basic Programs	84.010A	20-610101019912	20,704
ESEA, Title I, Part A - Improving Basic Programs	84.010A	21-610101019912	193,239
ESEA, Title I, Part A - Improving Basic Programs	84.010A	22-610101019912	9,825
Total Assistance Listing Number 84.010A			223,768
*IDEA - Part B, Formula	84.027	20-6600010199126000	16,636
*IDEA - Part B, Formula	84.027	21-6600010199126000	307,286
*IDEA - Part B, Formula	84.027	22-6600010199126000	35,753
Total Assistance Listing Number 84.027			359,675
*IDEA - Part B, Preschool	84.173	20-9910010199126000	1,116
*IDEA - Part B, Preschool	84.173	21-9910010199126000	7,082
Total Assistance Listing Number 84.173			8,198
Total Special Education Cluster (IDEA)			367,873
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	21-694501019912	44,977
Title IV, Part A, Subpart 1	84.424A	20-680101019912	11,393
Title IV, Part A, Subpart 1	84.424A	21-680101019912	14,007
Total Assistance Listing Number 84.424A			25,400
ESSER Grant Fund III	84.425U	21-528001019912	5,290
ESSER Grant Fund III	84.425U	22-528001019912	49,644
Total Assistance Listing Number 84.425			54,934
Total Passed Through State Department of Education			908,825
TOTAL U.S. DEPARTMENT OF EDUCATION			908,825
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	N/A	68,382
*National School Lunch Program - Cash Assistance	10.555	N/A	288,098
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	53,959
*COVID-19 Emergency Op Cost Reimbursement Program	10.555	N/A	41,800
Total Assistance Listing Number 10.555			383,857
Total Child Nutrition Cluster			452,239
Total Passed Through the State Department of Agriculture			452,239
TOTAL U.S. DEPARTMENT OF AGRICULTURE			452,239
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,361,064

*Clustered Programs as required by Compliance Supplement 2021

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**PLEASANT GROVE INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2021**

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

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

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

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

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

A reconciliation of federal program revenues and expenditures is as follows:

General Fund	396,338
Other Special Revenue Funds	<u>1,169,191</u>
Sub -total	1,565,529
Less:	
SSA - School Health & Related Services (SHARS)	(29,219)
ERATE	<u>(175,248)</u>
 Total Federal Program Expenditures	 <u><u>1,361,064</u></u>

SCHOOLS FIRST QUESTIONNAIRE

Pleasant Grove Independent School District

Fiscal Year 2021

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



APPENDIX C

July 14, 2022

In regard to the authorization and issuance of the "Pleasant Grove Independent School District Unlimited Tax School Building Bonds, Series 2022" (the Bonds), dated August 1, 2022, in the aggregate principal amount of \$39,900,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Pleasant Grove Independent School District (the Issuer). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in the years 2032 through 2043, 2049 and 2042, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the Order) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of

equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

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

Walsh Gallegos Treviño Kyle & Robinson, PC

July 14, 2022

IN REGARD to the authorization and issuance of the "Pleasant Grove Independent School District Unlimited Tax School Building Bonds, Series 2022" (the *Bonds*), dated August 1, 2022, in the aggregate principal amount of \$39,900,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Pleasant Grove Independent School District (the Issuer). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in the years 2032 through 2043, 2049 and 2042, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

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

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

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

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

Cantu Harden LLP