

OFFICIAL NOTICE OF SALE, BID FORM
and
PRELIMINARY OFFICIAL STATEMENT

\$25,655,000*

BELLS INDEPENDENT SCHOOL DISTRICT
(Grayson County, Texas)

Unlimited Tax School Building Bonds
Series 2023

Bids Due
July 31, 2023
at 11:00 a.m., Central Time

*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Bonds defined and described herein. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement.

OFFICIAL NOTICE OF SALE

\$25,655,000*

BELLS INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Grayson County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BID: The Board of Trustees (the "Board") of the Bells Independent School District (the "District" or the "Issuer") is offering for sale at competitive bid its \$25,655,000* Unlimited Tax School Building Bonds, Series 2023 (the "Bonds"). Bidders may submit bids for the Bonds by either of the following methods:

- (1) Submit bids electronically as described below in "BIDS BY INTERNET;" or
- (2) Submit bids by facsimile as described below in "BIDS BY FACSIMILE."

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on July 31, 2023. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 10:00 A.M., Central Time, on July 31, 2023, indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile, as described below. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Issuer. The Issuer shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being the sole risk of the prospective bidder.

BIDS BY FACSIMILE: Interested bidders may, at their option and risk, submit their bid by facsimile to the District's Financial Advisor, SAMCO Capital Markets, Inc., Attention: Mr. Brian Grubbs at (214) 279-8683 by 11:00 A.M., Central Time, on July 31, 2023. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to bgrubbs@samcocapital.com by 10:00 A.M., Central Time, on July 31, 2023 indicating their intent to submit a bid by facsimile.

Neither the District nor SAMCO Capital Markets, Inc. is responsible for any failure of either of the Financial Advisor's or the bidder's fax machine. Bids received by facsimile after the bid deadline will not be accepted. Bidders who fax bids do so at their own risk. All such bids are binding on the bidder.

PLACE AND TIME OF BID OPENING: The bids for the Bonds will be opened at the District's offices at 11:00 A.M. Central Time, on July 31, 2023.

AWARD OF THE BONDS: The Board will take action to award the Bonds (or reject all bids) at a meeting to commence at 7:00 P.M., Central Time, on July 31, 2023.

THE BONDS

DESCRIPTION: The Bonds will be dated August 1, 2023 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date and will be due on August 28, 2023, and each February 15 and August 15 thereafter until maturity or prior redemption. The Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company New York, New York ("DTC"). 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, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas as Paying Agent/Registrar, 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" in the Preliminary Official Statement.)

**Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.*

MATURITY SCHEDULE: The Bonds will be stated to mature on the dates and in the amounts, as follows:

Maturity (2/15)	Principal Amount*	Interest Rate (%)	Maturity (2/15)	Principal Amount*	Interest Rate (%)
2027	\$100,000		2041	\$875,000	
2028	305,000		2042	915,000	
2029	320,000		2043	955,000	
2030	385,000		2044	1,000,000	
2031	410,000		2045	1,045,000	
2032	430,000		2046	1,085,000	
2033	455,000		2047	1,135,000	
2034	480,000		2048	1,185,000	
2035	505,000		2049	1,970,000	
2036	530,000		2050	2,060,000	
2037	560,000		2051	2,150,000	
2038	590,000		2052	2,245,000	
2039	785,000		2053	2,350,000	
2040	830,000				

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS: After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the District and its Financial Advisor in \$5,000 increments to reflect the actual interest rates and to create a substantially level debt service schedule for the District. Such adjustments will not change the aggregate principal amount of the Bonds by more than 10% from the amount set forth herein or change the principal amount due on the Bonds in any year by more than 20% (excluding the 2027 maturity). The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The District will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of the bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS OF AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

SERIAL BONDS AND/OR TERM BONDS: Bidders may provide that all of the Bonds be issued as serial maturities or may provide that maturities 2034 through 2053 be combined into term bonds (the "Term Bonds"). Any Term Bonds will be subject to mandatory sinking fund redemption in accordance with the Order. (See "THE BONDS – Mandatory Sinking Fund Redemption")

MANDATORY SINKING FUND REDEMPTION: If the successful bidder designates principal amounts of the Bonds to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "MATURITY SCHEDULE" (subject to adjustment, as provided in "ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS"). Term Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption.

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT: The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on May 6, 2023 and an order (the "Order") to be adopted by the District's Board on July 31, 2023. The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See "THE BONDS – Security" in the Preliminary Official Statement.)

PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Order, the District covenants to provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Bonds.

In the Order the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, such Paying Agent/Registrar, promptly upon the appointment of a successor, is required to deliver the Security Register to the successor Paying Agent/Registrar.

In the event there is a change in the Paying Agent/Registrar, the District has agreed to notify each registered owner of the Bonds by United States mail, first-class postage prepaid, at the address in the Security Register, stating the effective date of the change and the mailing address of the successor Paying Agent/Registrar.

BOOK-ENTRY-ONLY SYSTEM: The District intends to utilize the Book-Entry-Only System of DTC with respect to the issuance of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.

*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDER: Further details regarding the Bonds and certain covenants of the District contained in the Order are set forth in the Preliminary Official Statement, to which reference is made for all purposes.

CONDITIONS OF THE SALE

TYPES OF BIDS AND INTEREST RATES: The Bonds will be sold in one block, on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Bonds from the Dated Date of the Bonds to the date of Initial Delivery (defined herein) of the Bonds. **No bid producing a cash premium on the Bonds that results in a dollar price of less than \$101.50 nor greater than \$110.00 will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS."** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 100 basis points (or 1.00% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.**

BASIS OF AWARD: The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate on the Bonds to the District.** The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the **Dated Date** of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid (but not interest accrued from the Dated Date to the date of their Initial Delivery). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the District with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the District with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE BONDS: In order to provide the Issuer with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended relating to the exclusion of interest on the Bonds from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the Issuer or to the Issuer's municipal advisor, SAMCO Capital Markets, Inc. (the "Issuer's Municipal Advisor") (within 5 business days of the date on which the 10% Test, as defined below, is satisfied with respect to each of the maturities of the Bonds) a certification as to the Bonds' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the Issuer. Each bidder, by submitting its bid, agrees to complete, execute, and timely deliver the Issue Price Certificate, if its bid is accepted by the Issuer. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),
- (iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "Sale Date" means the date that the Bonds are awarded by the Issuer to the winning bidder.

All actions to be taken by the Issuer under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the Issuer by the Issuer's Municipal Advisor, and any notice or report to be provided to the Issuer may be provided to the Issuer's Municipal Advisor.

The Issuer will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

The Issuer intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which requires, among other things, that the Issuer receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein. In the event that the bidding process does not satisfy the Competitive Sale Requirement, bids will not be subject to cancellation and the winning bidder

will be required to hold-the-offering-price of each maturity of the Bonds, other than any maturity 10% of which have been sold to the Public on the Sale Date at the initial offering prices or any higher prices ("Hold-the-Price Bonds"), as described in the next paragraph.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any maturity of the Hold-the-Price Bonds to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the Sale Date; or
- (2) the date on which the Underwriters have sold at least 10% of that maturity of the Bonds to the Public at a price that is no higher than the initial offering price to the Public.

The winning bidder shall promptly advise the Issuer when such bidder has sold at least 10% of a maturity of the Hold-the-Price Bonds to the Public at a price that is not higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

In the event that the bidding process does not satisfy the Competitive Sale Requirement, in order to assist the Issuer with documenting the establishment of the issue prices of the Bonds, the winning bidder agrees to promptly report to the Issuer the prices at which at least 10% of each maturity of the Bonds have been sold to the Public (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test). That reporting obligation shall continue until 10% of each maturity of the Bonds is sold to the Public. By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wires.

GOOD FAITH DEPOSIT: A bank cashier's check, payable to the order of "Bells Independent School District", in the amount of \$513,100 which is 2% of the proposed par value of the Bonds (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the District pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with its bid **or if it is determined after the acceptance of its bid by the Issuer that the Purchaser was found not to satisfy the requirements described below under STANDING LETTER REQUIREMENT and as a result the Texas Attorney General will not deliver its approving opinion of the Bonds, then said check shall be cashed and accepted by the District as full and complete liquidated damages.** The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Bonds has been made by the District.

ADDITIONAL CONDITIONS OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

Obligation of the District to receive information from winning bidder. In accordance with Texas Government Code, Section 2252.908, (the "Interested Party Disclosure Act") the District may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"),

or

(ii) certifies in the Official Bid Form that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the District's conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a Disclosure Form, such notification will obligate the winning bidder to promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award. The District reserves the right to reject any bid that does not comply with the requirements prescribed herein.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 – name of the governmental entity (*Bells Independent School District*) and (b) item 3 – the identification number assigned to this contract by the District (*0001*) and description of the goods or services (*Purchase of the Bells Independent School District Unlimited Tax School Building Bonds, Series 2023*). **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require certain business entities contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, complete the unsworn declaration, sign, and deliver the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The completed and signed Disclosure Form must be sent by email, to the District's financial advisor at bgrubbs@samcocapital.com as soon as possible**

following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the winning bidder must submit the Disclosure Form with original signatures by email to Bond Counsel as follows: jjulbas@mphlegal.com.

Preparations for completion, and the significance of, the reported information. To the extent that the bidder is not exempt from filing a Disclosure Form and therefor makes such filing with the District, the Interested Party Disclosure Act and the Disclosure Form provide that such declaration is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. **Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. The District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein.** Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

NO BOYCOTT OF ISRAEL VERIFICATION: Pursuant to Chapter 2271, Texas Government Code, the District and other governmental entities in the State may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it: (1) does not boycott Israel; and (2) will not boycott Israel during the term of the contract. To enable the District to comply with Chapter 2271, and to enable it to contract for the sale of the Bonds, the Official Bid Form for the Bonds includes a written verification of the bidder to the effect described above. Each bidder should review the "no Israel boycott verification" included in the Official Bid Form prior to making a bid for the Bonds to determine whether such statement can be made, which is a condition to making a bid for the Bonds.

VERIFICATION OF NO DEALINGS WITH FOREIGN TERRORIST ORGANIZATIONS: Pursuant to Chapter 2252, Texas Government Code, the District will not award the Bonds to a bidder unless the bidder certifies that neither it nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, is a company that contracts with or provides supplies or services to a foreign terrorist organization, as defined by Section 2252.151(2), Texas Government Code, or identified as a company known to have contracts with or provide supplies or services to a foreign terrorist organization as identified on a list prepared and maintained under Sections 2270.0201 or 2252.153, Texas under Sections 2270.0201 or 2252.153, Texas Government Code. By submitting a bid, the potential purchaser makes and certifies to the representations necessary and convenient for the compliance with the aforementioned laws and, at the request of the District, agrees to execute further written certifications as may be necessary or convenience for the District to establish compliance with the aforementioned laws.

VERIFICATION PURSUANT TO CHAPTER 2274 OF THE TEXAS GOVERNMENT CODE: Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable state or federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder boycotts energy companies or will boycott energy companies. The terms "boycotts energy companies" and "boycott energy companies" as used in this paragraph have the meaning assigned to the term "boycott energy company" in Section 809.001 of the Texas Government Code, as amended.

Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable state or federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder discriminates against a firearm entity or firearm trade association. The term "discriminates against a firearm entity or firearm trade association" as used in this paragraph has the meaning assigned to the term "discriminate against a firearm entity or firearm trade association" in Section 2274.001 of the Texas Government Code, as amended.

STANDING LETTER REQUIREMENT: The bidder must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office as required by the All Bond Counsel Letter of the Texas Attorney General dated September 22, 2021 (the "All Bond Counsel Letter"). In submitting a bid, the bidder represents to the District that it has filed a standing letter that conforms to the requirements set forth in the All Bond Counsel Letter and it has no reason to believe that the District may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office. Bidder agrees that it will not rescind its standing letter at any time before the delivery of the Certificates unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The Issuer reserves the right, in its sole discretion, to reject any bid from a bidder that does not have such standing letter on file as of the deadline for bids for the Bonds. If requested by the Issuer, the Purchaser agrees to provide such further representations, certifications or assurances regarding the matters described under the heading **VERIFICATION PURSUANT TO CHAPTER 2274 OF THE TEXAS GOVERNMENT CODE**, as of the date of delivery of the Bonds or such other date requested by the District.

FURTHER STATE LAW COMPLIANCE: THE DISTRICT WILL NOT ACCEPT THE BID OF ANY BIDDER WHO IS, OR WHOSE PARENT COMPANY, SUBSIDIARIES OR AFFILIATES IS, ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER OR HAS A PENDING OR UNRESOLVED INQUIRY FROM A POLITICAL SUBDIVISION OR THE TEXAS COMPTROLLER OR THE TEXAS ATTORNEY GENERAL RELATED TO COMPLIANCE WITH CHAPTER 2274 OF THE TEXAS GOVERNMENT CODE. BY SUBMITTING A BID, EACH BIDDER AGREES, SHOULD IT BE THE WINNING BIDDER, TO COOPERATE WITH THE DISTRICT AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW.

By submitting a bid, each bidder agrees, should it be the winning bidder, to cooperate with the District and take any action necessary to further verify and confirm compliance with state law.

OFFICIAL STATEMENT

To assist the winning bidder (the "Purchaser" or Initial Purchaser") in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the Issuer and the Initial Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION: The Issuer has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the Issuer deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, yields, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Initial Purchaser shall be responsible for promptly informing the Issuer of the initial offering prices/yields of the Bonds.

Thereafter, the Issuer will complete and authorize distribution of the final Official Statement, being a modification of the Preliminary Official Statement, identifying the Initial Purchaser and containing such omitted information. The Issuer does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION" as described below.

FINAL OFFICIAL STATEMENT: The Issuer will furnish to the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of one hundred (100) copies of the Official Statement, together with information regarding interest rates, and other terms relating to the reoffering of the Bonds. In addition, the District agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with MSRB Rule G-32. The Purchaser may arrange at its own expense to have the Official Statement reproduced and printed if it requires more copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The Purchaser will be responsible for providing information concerning the Issuer and the Bonds to subsequent purchasers of the Bonds, and the Issuer will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The Issuer's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading, after the date of the Official Statement, shall terminate 25 days after the date of Initial Delivery.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the Issuer learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser of any adverse event which causes the Official Statement to be incomplete or materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS – CONDITIONS TO DELIVERY," the Issuer will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement, in a "designated electronic format" satisfactory to the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION: At the time of payment for and delivery of the hereinafter defined Initial Bonds ("Initial Delivery"), the Initial Purchaser will be furnished a certificate, executed by proper officials of the Issuer, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the Initial Delivery, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the Issuer, since August 31, 2022, the date of the last financial statements of the Issuer appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds. The Official Statement and this Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the Board in the Order, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.

CONTINUING DISCLOSURE AGREEMENT: The District has agreed in the Order to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: During the past five years, to the best of its knowledge, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND: Initial Delivery will be accomplished by the issuance of one or more fully registered Bonds in the aggregate principal amount of the Bonds payable to the Purchaser (the "Initial Bond" or "Initial Bonds"), signed by the duly appointed officers of the Board, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity of

the Bonds payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that the delivery of the Initial Bond can be made on or about August 24, 2023, but if for any reason the District is unable to make delivery by September 21, 2023, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Bonds an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of any further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided that such failure is due to circumstances beyond the District's reasonable control.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the Issuer; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Initial Purchaser.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of the State of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel and the District's certificate regarding the Official Statement as described under "CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION," and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE". In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the Issuer within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligations of the Initial Purchaser to take up and pay for the Bonds, and of the Issuer to deliver the Initial Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Bonds, there shall have been no material adverse change in the affairs of the Issuer subsequent to the date of sale from that set forth in the Official Statement, as it may have been finalized, supplemented or amended through the date of Initial Delivery.

LEGAL OPINIONS: The District will furnish the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Bonds, to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, regarding the legality and validity of the Bonds issued in compliance with the provisions of the Order. (See "LITIGATION" and "LEGAL MATTERS" in the Official Statement and "Appendix C – Form of Legal Opinion of Bond Counsel" attached to the Official Statement.)

CHANGE IN TAX-EXEMPT STATUS: At any time before the Bonds are tendered for initial delivery to the Initial Purchaser, the Initial Purchaser may withdraw its bid if the interest on obligations such as the Bonds shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

GENERAL CONSIDERATIONS

RATING: The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. There is no assurance that any such rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said rating company, circumstances so warrant. Any such downward revision or withdrawal of one or more ratings may have an adverse effect on the market price or marketability of the Bonds.

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

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The Issuer agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Bonds, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but the District will in no instance execute a general consent to service of process in any state in which the Bonds are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024.

On the date of sale of the Bonds, the Board will, in the Order, approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and to authorize its further use in the reoffering of the Bonds by the Purchaser.

BELLS INDEPENDENT SCHOOL DISTRICT

/s/ Matt Stephens

President, Board of Trustees

ATTEST:

/s/ Lonnie Carter

Secretary, Board of Trustees

Dated: July 24, 2023

OFFICIAL BID FORM

President and Board of Trustees
 Bells Independent School District
 1550 Ole Ambrose Road
 Bells, Texas 75414

July 31, 2023

Ladies & Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated July 24, 2023 of \$25,655,000* BELLS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023 (the "Bonds"), both of which constitute a part hereof.

For your legally issued Bonds, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus accrued interest from their Dated Date to the date of delivery to us, plus a cash premium of \$ _____ **(no bid producing a cash premium that results in a dollar price of less than \$101.50 nor greater than \$110.00 will be considered)** for Bonds maturing and bearing interest as follows:

Maturity (2/15)	Principal Amount*	Interest Rate (%)	Maturity (2/15)	Principal Amount*	Interest Rate (%)
2027	\$100,000	_____	2041	\$875,000	_____
2028	305,000	_____	2042	915,000	_____
2029	320,000	_____	2043	955,000	_____
2030	385,000	_____	2044	1,000,000	_____
2031	410,000	_____	2045	1,045,000	_____
2032	430,000	_____	2046	1,085,000	_____
2033	455,000	_____	2047	1,135,000	_____
2034	480,000	_____	2048	1,185,000	_____
2035	505,000	_____	2049	1,970,000	_____
2036	530,000	_____	2050	2,060,000	_____
2037	560,000	_____	2051	2,150,000	_____
2038	590,000	_____	2052	2,245,000	_____
2039	785,000	_____	2053	2,350,000	_____
2040	830,000	_____			

(Interest to Accrue from the Dated Date)

Of the principal maturities of the Bonds set forth in the table above, we have created term bonds (the "Term Bonds") as indicated in the following table (which may include multiple Term Bonds, one Term Bond or no Term Bond if none is indicated). For those years which have been combined into a Term Bond, the principal amount shown in the table above will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date will mature in such year. The Term Bonds created are as follows:

Term Bond Maturity Date	Year of First Mandatory Redemption	Principal Amount of Term Bond	Interest Rate
February 15	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Our calculation (which is not a part of this bid) of the interest cost in accordance with the above bid is:

TRUE INTEREST COST _____ %

By accepting this bid, we understand the District will provide the copies of the Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale.

The Initial Bond(s) shall be registered in the name of the syndicate manager. We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery. It is the obligation of the Purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

Cashier's Check of the _____ (bank), _____ (location), in the amount of \$513,100 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the opening of the bid, in accordance with the terms set forth in the Official Notice of Sale and the Preliminary Official Statement. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

We agree to accept delivery of the Initial Bond(s) through DTC and make payment for the Initial Bond(s) in immediately available funds at BOKF, NA Dallas, Texas, no later than 10:00 A.M., Central time, on August 24, 2023 or thereafter on the date the Initial Bond(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The Issuer will consider any bid submitted pursuant to the Notice of Sale relating to the Bonds to be a firm offer for the purchase of the Bonds.

The undersigned agrees to complete, execute and deliver to the District by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

**Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" in the Official Notice of Sale and Bidding Instructions.*

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as bidder shall be solely responsible for the payment of the purchase price of the Bonds. The bidder may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

No Boycott of Israel Verification. To the extent this bid for the Bonds represents a contract for goods or services within the meaning of Section 2271.002 of the Texas Government Code, as amended, the bidder verifies, for purposes of Chapter 2271 of the Texas Government Code, as amended, that, except to the extent otherwise required by applicable state or federal law, at the time of execution and delivery of this bid and to the date of delivery of the Bonds, neither the bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the bidder, boycotts or will boycott Israel. The terms "company", "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended. The bidder understands "affiliate" to mean an entity that controls or is controlled by, or is under common control with, the bidder and exists to make a profit.

Verification Regarding Foreign Terrorist Organizations. The bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under section 2252.153 or Section 2270.0201, Texas Government Code, as amended, and posted on any of the following pages of such officer's Internet website:

<https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>,

<https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or

<https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>.

The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, as amended, and to the extent such Section does not contravene applicable State or federal law and excludes the bidder and the bidder's parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. The bidder understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with, the bidder and exists to make a profit.

No Boycott of Energy Companies. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, to the extent this bid for the Bonds is a contract for goods or services, does not boycott energy companies as of the date of delivery of this bid, and will not boycott energy companies through the date of initial delivery of the Bonds. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, "boycott energy companies" means, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company: (a) engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or (b) does business with a company described by (a). The bidder understands "affiliate" to mean an entity that controls or is controlled by, or is under common control with, the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Bonds, the Office of the Texas Attorney General make require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter.**

No Discrimination Against Firearm Entities or Firearm Trade Associations. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, to the extent this bid for the Bonds is a contract for goods or services, as of the date of delivery of this bid does not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association, and through the date of initial delivery of the Bonds will not discriminate against a firearm entity or firearm trade association. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, and to the extent such Section does not contravene applicable federal or state law. As used in the foregoing verification, the terms "discriminates against a firearm entity or firearm trade association" and "discriminate against a firearm entity or firearm trade association" mean: (i) to refuse to engage in the trade of any goods or services with the entity or association based solely on its status as a firearm entity or firearm trade association, (ii) refrain from continuing an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association, or (iii) terminate an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association; but does not include a company's refusal to engage in the trade of any goods or services, decision to refrain from continuing an existing business relationship, or decision to terminate an existing business relationship (i) to comply with federal, state or local law, policy, or regulations or a directive by a regulatory agency, or (ii) for any traditional business reason that is specific to the customer or potential customer and not based solely on an entity's or association's status as a firearm entity or firearm trade association. The bidder understand "affiliate" to mean an entity that controls or is controlled by, or is under common control with, the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Bonds, the Office of the Texas Attorney General may require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter.**

FURTHER STATE LAW COMPLIANCE: IN ADDITION TO THE FOREGOING, THE BIDDER HEREBY REPRESENTS, BY SUBMISSION OF THIS BID, THAT NEITHER IT NOR ITS PARENT COMPANY, SUBSIDIARIES OR AFFILIATES IS ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER OR HAS A PENDING OR UNRESOLVED INQUIRY FROM A POLITICAL SUBDIVISION OR THE TEXAS COMPTROLLER OR THE TEXAS ATTORNEY GENERAL RELATED TO COMPLIANCE WITH CHAPTER 2274 OF THE TEXAS GOVERNMENT CODE.

BY SUBMITTING A BID, BIDDER AGREES, THAT SHOULD IT BE THE WINNING BIDDER, BIDDER SHALL COOPERATE WITH THE DISTRICT AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW. IF THE TEXAS ATTORNEY GENERAL REQUIRES ADDITIONAL DOCUMENTATION IN ORDER TO RELEASE ITS OPINION, IT IS THE BIDDER'S SOLE RESPONSIBILITY TO SATISFY ALL REQUESTS OF THE TEXAS ATTORNEY GENERAL. THE DISTRICT HAS NO DUTY OR

RESPONSIBILITY TO ASSIST THE BIDDER IN SATISFYING THESE REQUIREMENTS. BY SUBMITTING A BID, THE BIDDER UNDERSTANDS AND AGREES THAT THE DISTRICT HAS THE SOLE DISCRETION TO KEEP THE BIDDER'S GOOD FAITH DEPOSIT IF THE BIDDER FAILS TO SATISFY THE OFFICE OF THE TEXAS ATTORNEY GENERAL AS TO THE REPRESENTATIONS DESCRIBED HEREIN UNDER "No Boycott of Energy Companies" AND "No Discrimination Against Firearm Entities or Firearm Trade Associations."

Submission or Exemption of filing Form 1295: In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"),

or

(ii) certifies below that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

Unless the bidder certifies that it is exempt from filing a Disclosure Form with the District, upon notification of conditional verbal acceptance and if required, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed and sent by email to the District's financial advisor at bgrubbs@samcocapital.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

The Purchaser (mark one):

(i) Agrees to timely make a filing of a completed Disclosure Form with the District

or

(ii) Hereby certifies that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity .

Respectfully submitted,

(Purchaser)

(Signature - Title)

(Telephone)

[District signature page follows.]

ACCEPTANCE CLAUSE

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this July 31, 2023 by the Order of the Board of Trustees of the Bells Independent School District.

President, Board of Trustees

ATTEST:

Secretary, Board of Trustees

CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY
 CERTIFICATION OF FILING**

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

Bells Independent School District

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

0001

Purchase of the Bells Independent School District Unlimited Tax School Building Bonds, Series 2023

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address is _____, _____, _____, _____, _____.
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the _____ day of _____, 20____.
(month) (year)

 Signature of authorized agent of contracting business entity
 (Declarant)

ISSUE PRICE CERTIFICATE

(Form of Certificate if at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2023 issued by the Bells Independent School District (“Issuer”) in the principal amount of \$25,655,000* (“Bonds”), hereby certifies and represents, based on its records and information, as follows:

- (a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser’s reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the “Expected Offering Prices”) to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.
- (b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).
- (c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

* Preliminary, subject to change. See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” herein.

ISSUE PRICE CERTIFICATE

(Form of Certificate if less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the Unlimited Tax School Building Bonds, Series 2023 issued by the Bells Independent School District (“Issuer”) in the principal amount of \$25,655,000* (“Bonds”), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Bonds maturing in ____ (“Hold-the-Price Maturities”), the][The] first prices at which at least ten percent (“Substantial Amount”) of the principal amount of each maturity of the Bonds having the same credit and payment terms (“Maturity”) was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter (“Public”) are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds (“Sale Date”), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto (“Initial Offering Price”).

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

* Preliminary, subject to change. See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” herein.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

BOND YEARS

\$25,655,000*

BELLS INDEPENDENT SCHOOL DISTRICT

(Grayson County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

Dated: August 1, 2023

Due: February 15

Date	Amount*	Bond Years*	
		Bond Years	Cumulative Bond Years
2027	\$ 100,000	347.5000	347.5000
2028	305,000	1,364.8750	1,712.3750
2029	320,000	1,752.0000	3,464.3750
2030	385,000	2,492.8750	5,957.2500
2031	410,000	3,064.7500	9,022.0000
2032	430,000	3,644.2500	12,666.2500
2033	455,000	4,311.1250	16,977.3750
2034	480,000	5,028.0000	22,005.3750
2035	505,000	5,794.8750	27,800.2500
2036	530,000	6,611.7500	34,412.0000
2037	560,000	7,546.0000	41,958.0000
2038	590,000	8,540.2500	50,498.2500
2039	785,000	12,147.8750	62,646.1250
2040	830,000	13,674.2500	76,320.3750
2041	875,000	15,290.6250	91,611.0000
2042	915,000	16,904.6250	108,515.6250
2043	955,000	18,598.6250	127,114.2500
2044	1,000,000	20,475.0000	147,589.2500
2045	1,045,000	22,441.3750	170,030.6250
2046	1,085,000	24,385.3750	194,416.0000
2047	1,135,000	26,644.1250	221,060.1250
2048	1,185,000	29,002.8750	250,063.0000
2049	1,970,000	50,185.7500	300,248.7500
2050	2,060,000	54,538.5000	354,787.2500
2051	2,150,000	59,071.2500	413,858.5000
2052	2,245,000	63,926.3750	477,784.8750
2053	2,350,000	69,266.2500	547,051.1250

Average Maturity = 21.323

*Preliminary, subject to change. See "THE BONDS - ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" in the Official Notice of Sale and Bidding Instructions.

PRELIMINARY OFFICIAL STATEMENT
Dated: July 24, 2023

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations.

\$25,655,000*
BELLS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Grayson County, Texas)
Unlimited Tax School Building Bonds, Series 2023

Dated Date: August 1, 2023

Due: February 15, as shown on the inside cover page

The Bells Independent School District Unlimited Tax School Building Bonds, Series 2023 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023 and an order (the "Bond Order") authorizing the issuance of the Bonds to be adopted on July 31, 2023 by the Board of Trustees (the "Board") of the Bells Independent School District (the "District"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15 and August 15 of each year, commencing August 28, 2023, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for (i) constructing, remodeling, improving, renovating and equipping school facilities in the District and constructing, improving and equipping tennis courts in the District, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Initial Purchaser (defined herein), such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order (see "THE BONDS – Mandatory Sinking Fund Redemption").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser (the "Purchaser" or the "Initial Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about August 24, 2023.

BIDS DUE JULY 31, 2023 BY 11:00 A.M., CENTRAL TIME

**Preliminary, subject to change.*

\$25,655,000*
BELLS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Grayson County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

MATURITY SCHEDULE
Base CUSIP No.: 079851⁽¹⁾

Maturity Date 2/15	Principal Amount*	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2027	\$100,000			
2028	305,000			
2029	320,000			
2030	385,000			
2031	410,000			
2032	430,000			
2033	455,000			
2034	480,000			
2035	505,000			
2036	530,000			
2037	560,000			
2038	590,000			
2039	785,000			
2040	830,000			
2041	875,000			
2042	915,000			
2043	955,000			
2044	1,000,000			
2045	1,045,000			
2046	1,085,000			
2047	1,135,000			
2048	1,185,000			
2049	1,970,000			
2050	2,060,000			
2051	2,150,000			
2052	2,245,000			
2053	2,350,000			

(Interest to accrue from the Dated Date)

*Preliminary, subject to change.

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BELLS INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Year Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Matt Stephens, President	2018	2024	Airgas Sales Director
Gary Payne, Vice President	2005	2026	Denison ISD Maintenance
Lonnie Carter, Secretary	2019	2025	Insurance Adjuster
Cole Kimberling, Member	2021	2025	Sales Manager / Sparklight
Jeremy Moore, Member	2021	2024	Construction Consultant
Stephanie Nettles, Member	2023	2026	Clinical Liaison
Dava Washburn, Member	2021	2024	VP of Instruction, Grayson College

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Tricia Meek	Superintendent	30 Years	29 Years
Marilyn Steger	Business Manager	47 Years	18 Years

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Morgan, Davis, & Company, Greenville, Texas	Certified Public Accountants

For additional information, contact:

Tricia Meek
Superintendent
Bells Independent School District
1550 Ole Ambrose Road
Bells, Texas 75414
(903) 965-7721

Brian Grubbs / Doug Whitt
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1470
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained 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 affairs of the District or other matters described herein. See "APPENDIX E - 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 and the District, respectively, to provide certain information on a continuing basis.

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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKES 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, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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 THIS ENTIRE OFFICIAL STATEMENT INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without this entire Official Statement.

The District	The Bells Independent School District (the "District") is a political subdivision of the State of Texas located in Grayson County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of \$25,655,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023, and an order (the "Bond Order") authorizing the issuance of the Bonds to be adopted by the Board on July 31, 2023. Proceeds from the sale of the Bonds will be used for (i) constructing, remodeling, improving, renovating and equipping school facilities in the District and constructing, improving and equipping tennis courts in the District, and (ii) to pay the costs of issuing the Bonds. (See "THE BONDS – Authorization and Purpose").
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
Security	The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Redemption	The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS – Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Initial Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order (see "THE BONDS – Mandatory Sinking Fund Redemption").
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's underlying, unenhanced rating, including the Bonds, is "A+" by S&P. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the Guarantee Program" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about August 24, 2023.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Bells Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Grayson County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2023 (the "Bonds") identified on the inside cover page hereof.

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.

There follows in this Official Statement descriptions of the Bonds and the Bond Order to be adopted by the Board of Trustees of the District (the "Board") on July 31, 2023 authorizing the issuance of the Bonds (the "Bond Order") and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Bells Independent School District, 1550 Ole Ambrose Road, Bells, Texas 75414 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the initial purchaser of the Bonds (the "Purchaser" or "Initial Purchaser") to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$25,655,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023 (the "Election") and an order (the "Bond Order") authorizing the issuance of the Bonds to be adopted by the Board of Trustees (the "Board") on July 31, 2023. Proceeds from the sale of the Bonds will be used for (i) constructing, remodeling, improving, renovating and equipping school facilities in the District and constructing, improving and equipping tennis courts in the District, and (ii) to pay the costs of issuing the Bonds.

General Description

The Bonds will be dated August 1, 2023 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on August 28, 2023 and on each February 15 and August 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a maturity.

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books at the close of business on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Optional Redemption

The Bonds maturing on or after, February 15, 2034 are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed. 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 registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

Mandatory Sinking Fund Redemption

If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Initial Purchaser, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order and as further set forth in the final Official Statement.

Notice of Redemption and DTC Notices

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices 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 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.

Security

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education of the State for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES" herein.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

Payment Record

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

Amendments

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

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

Defeasance

The Bond Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Bond Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. District officials may restrict such eligible securities as deemed appropriate in connection with the sale of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District

to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished, provided, however, the District has reserved 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.

Sources and Uses of Funds

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

Sources		
Par Amount of Bonds		\$
Accrued Interest		
[Net] Reoffering Premium		
Total Sources of Funds		\$ _____
Uses		
Deposit to Construction Fund		\$
Costs of Issuance		
Purchaser's Discount		
Deposit to Interest and Sinking Fund		
Total Uses of Funds		\$ _____

REGISTERED OWNERS' REMEDIES

The Bond Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, 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 the Bond Order covenants 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.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suite against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "APPENDIX E - 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 Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100

countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited Securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

All 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 payable 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to the Bonds 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 to bond holders.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered to bond holders.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Purchaser 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 Direct or Indirect 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Bond Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

Successor Paying Agent/Registrar

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform

the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Initial Registration

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.

Future Registration

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds 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 Bonds 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 Bond or Bonds being transferred or exchanged at the corporate trust 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. To the extent possible, 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 aggregate principal amount as the Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the next preceding month; provided, however, that the Record Date for the initial interest payment date is the closing 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 from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five 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 books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

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 (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to \$0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to \$0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between \$1.04 and \$1.17 per \$100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

2021 Regular and Special Legislative Sessions

The Texas 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"). 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.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. Following the conclusion of the 87th Regular Session, the Texas Governor has called three special sessions of the Legislature. No significant changes were made to the Texas school finance system or property tax systems during the First and Second Special Sessions. Senate Joint Resolution 2, passed during the Third Special Session, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000, which was approved by voters at an election held May 7, 2022. The amendment to the Constitution is effective beginning January 1, 2022. As a result of the increased exemption, additional changes to the education finance system were implemented, including "hold harmless" allotments, to provide funding to school districts who have less revenue (including revenues specifically for 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 in the future.

2023 Regular and Special Legislative Sessions

On January 10, 2023, the 88th Texas Legislature convened in general session that adjourned on May 29, 2023. Immediately after the conclusion of the regular session, the Texas Governor called a first special session to address property tax relief from school district taxation and border security; the first special session began on May 29, 2023 and ended on June 27, 2023. At the conclusion of the first special session, the Governor called a second special session that began on June 27, 2023 and adjourned on July 13, 2023.

The charge for the second special session included the following: (i) "Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers;" (ii) "Legislation to put Texas on a pathway to eliminate school district maintenance and operations property taxes;" (iii) "Legislation relating to

providing property tax relief through the public school finance system, exemptions, limitations on appraisals and taxes and property tax administration;” and (iv) “Legislation relating to the amount of the total revenue exemption from the franchise tax and the exclusion of certain taxable entities from the requirement to file a franchise tax report.”

During the second special session, the Legislature passed Senate Bill 2 (“SB 2”), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. “hold harmless”) for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

As of the date of this Official Statement, SB 2 has not yet been signed into law by the Governor.

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

Local Funding for School Districts

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

State Compression Percentage

The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For State fiscal year ending in 2023, the State Compression Percentage is 89.41%.

Maximum Compressed Tax Rate

The Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district’s prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2021 Legislative Session, a provision of the general appropriations act reduced the maximum MCR for the 2022-2023 school year. It established \$0.8941 as the maximum rate and \$0.8046 as the floor.

Tier One Tax Rate

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

Enrichment Tax Rate

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR. 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 actual M&O revenues generated by the school district’s respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district’s Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district’s own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some

instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations”), Tier Two funding may not be used for the payment of debt service or capital outlay.

The current public school finance system also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,007,300,000 for the EDA, IFA, and NIFA.

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

Tier One

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

The Basic Allotment for school districts with a Tier One Tax Rate equal to \$0.93, is \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than \$0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district’s MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by \$6,160, is a school district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

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

Tier Two

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

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment

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

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the “EDA Yield”) is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district’s local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district’s bonds are eligible for EDA assistance if (i) the school district made payments on the bonds

during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

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

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

Tax Rate and Funding Equity

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(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. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (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, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Options for Local Revenue Levels in Excess of Entitlement

Under Chapter 49, a school district has six 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.

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

For the 2022-2023 school year, the District was not designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenues" 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 will be required to exercise one or more of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ration of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district.

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

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. Reference is made to 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 countywide 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 collective responsibility of the Grayson County 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 (as described below) of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person's residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse's residence homestead if the spouse was at least 55 years old. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions. Senate Joint Resolution 2, passed during the Third Special Session of the 87th Texas Legislature and approved by voters on May 7, 2022 authorized a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000 beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

Additional legislation concerning the required homestead exemption was passed in the 2nd Special Session of the 88th Texas Legislature. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Regular and Any Special Legislative Sessions" herein.

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. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

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. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning 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”). The 87th Texas Legislature did not vote to extend this program, which expired by its terms effective December 31, 2022.

Tax Limitation Agreements

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

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM TAX PROCEDURES – The Property Tax Code as Applied to the District” herein.

District and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board,

consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, \$50.6 million for the 2021 tax year, \$52.9 million for the 2022 tax year, \$57.2 million for the 2023 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and 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.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters 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. 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 7, 1970 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the

tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as “new money bonds” and are subject to the \$0.50 threshold tax rate test. The District has not utilized State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district’s MCR; (ii) the greater of (a) the school district’s Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district’s current I&S tax rate. A school district’s M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district’s MCR (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

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

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

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.

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 Grayson County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Grayson County.

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

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

The District does not collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Grayson County Appraisal District.

The District does not allow split payments and does not give discounts for early payment of taxes.

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

The District does not grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has granted the freepoint exemption. The District has not taken action to tax goods-in-transit.

EMPLOYEES' 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 – Note L – Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2022 as set forth in Appendix D 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, Note M – Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2022 as set forth in Appendix D 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.

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.

RATING

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's underlying, unenhanced rating, including the Bonds, is "A+" by S&P. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its 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 approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel represents the Financial Advisor and purchasers of school district bonds from time to time in matters unrelated to the issuance of the Bonds, but Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as

Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds.

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith, and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

Interest on the Bonds may be includable in certain corporations' "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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

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

Future and Proposed Legislation

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

State, Local and Foreign Taxes

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, the District is authorized to invest in: (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 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 are unconditionally 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 (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) 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 (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) 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), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District

in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer 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 by clauses (1) or (12), which are 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 a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than 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 an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations 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, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the District, (v) 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 (vi) the agreement to lend securities has a term of one year or less.

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 is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the Texas Securities Board to provide such services.

Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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.

State law also requires that District 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 investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and 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 strategy statements and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt 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 entity 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 District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual 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.

Current Investments

As of March 31, 2023, the District had approximately \$7,183,791 (unaudited) invested in TexPool (an investment pool that generally has the characteristics of a money-market fund) and \$600,000 (unaudited) invested at a local bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the SEC under the United States 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 acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

CYBERSECURITY RISK MANAGEMENT

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

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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, and as part of, 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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "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 Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 OF INFORMATION

In the Bond Order, the District 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"). For a description of the continuing disclosure obligations

of the TEA, see "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2023. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

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

Notice of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the 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 of 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; and (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or others similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Bond Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings.

For these purposes, (a) an event described in clause (12) of in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above describe event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

Availability of Information

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 through EMMA at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend

or repeal the provisions of this 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 in the primary offering of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next 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 operating data so provided.

Compliance with Prior Undertakings

During the past five years, to the best of its knowledge, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

LITIGATION

In the opinion of District officials, the District is not a party to any litigation or other proceeding pending or to their knowledge threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

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.

WINNING BIDDER

After requesting competitive bids for the Bonds, the District accepted the bid of _____ (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a [net] reoffering premium of \$ _____, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The initial reoffering yields shown on page 2 hereof will produce compensation to the Purchaser in the amount of \$ _____. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT AND NO LITIGATION

At the time of payment for and delivery of the Initial Bond, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the District, since August 31, 2022, the date of the last financial statements of the District appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

CONCLUDING 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 does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Purchaser. The Board will approve the Official Statement for distribution in accordance with the provisions of Rule 15c2-12.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

BELLS INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2022/23 Total Valuation.....		\$ 903,908,062
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 44,958,742	
State Over-65 Exemption	4,620,526	
Disabled Homestead Exemption Loss	5,229,026	
Veterans Exemption Loss	461,817	
Surviving Spouse Disabled Veteran Exemption	139,954	
Pollution Exemption	1,326,889	
Productivity Loss	334,545,131	
Solar/Wind Power Exemption	146,725	
Homestead Cap Loss	85,101,305	
	<u>\$ 476,530,115</u>	
2022/23 Net Taxable Valuation		\$ 427,377,947
2023/24 Certified Net Taxable Valuation ⁽³⁾		\$ 425,546,648

(1) Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas Constitutional Amendment on May 7, 2022 election increased the homestead exemption from \$25,000 to \$40,000. See "AD VALOREM TAX PROCEDURES -- Residential Homestead Exemptions" in this Official Statement.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$22,995,868 in 2022/23.
 (3) Source: Certified Values from the Grayson Central Appraisal District as of July 21, 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023. As of the date of this Official Statement, SB 2 has not yet been signed into law by the Governor.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding		\$ 14,220,000
Plus: The Bonds ⁽¹⁾		<u>25,655,000</u>
Total Unlimited Tax Bonds ⁽¹⁾		\$ 39,875,000
Less: Estimated Interest & Sinking Fund Balance (As of August 31, 2022) ⁽²⁾		<u>(1,098,193)</u>
Net General Obligation Debt		\$ 38,776,807
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	9.11%	
2023 Population Estimate ⁽⁴⁾	4,756	
Per Capita Net Taxable Valuation	\$89,476	
Per Capita Net G.O. Debt	\$8,153	

(1) Preliminary, subject to change.
 (2) Source: Bells ISD Audited Financial Statements.
 (3) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2022" in Appendix D for more information relative to the District's outstanding obligations.
 (4) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁶⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁷⁾	Total ⁽⁷⁾
2006/07	\$ 120,736,159 ⁽¹⁾	\$ 1.5600 ⁽⁸⁾	97.51%	101.35%
2007/08	132,854,722 ⁽¹⁾	1.3000 ⁽⁸⁾	97.01%	99.14%
2008/09	135,763,801 ⁽¹⁾	1.4800	96.24%	98.40%
2009/10	160,908,245 ⁽¹⁾	1.4600	96.40%	99.13%
2010/11	203,098,321 ⁽¹⁾	1.4500	97.73%	100.26%
2011/12	195,951,450 ⁽¹⁾	1.4500	97.62%	99.53%
2012/13	192,161,493 ⁽¹⁾	1.4800	98.12%	101.74%
2013/14	188,225,598 ⁽¹⁾	1.4800	97.89%	100.12%
2014/15	194,299,728 ⁽¹⁾	1.4800	97.35%	98.61%
2015/16	201,569,597 ⁽¹⁾⁽²⁾	1.4800	97.24%	98.88%
2016/17	214,690,740 ⁽¹⁾⁽²⁾	1.4800	97.60%	101.42%
2017/18	235,806,408 ⁽¹⁾⁽²⁾	1.4800	98.16%	100.49%
2018/19	261,362,168 ⁽¹⁾⁽²⁾	1.5050	97.81%	99.10%
2019/20	316,028,420 ⁽¹⁾⁽²⁾	1.3840 ⁽⁹⁾	96.60%	97.80%
2020/21	339,123,971 ⁽¹⁾⁽²⁾	1.3398	97.49%	101.04%
2021/22	372,730,477 ⁽¹⁾⁽²⁾	1.2817	98.20%	100.62%
2022/23	427,377,947 ⁽¹⁾⁽³⁾	1.2585	(In Process of Collection)	
2023/24	425,546,648 ⁽⁴⁾⁽⁵⁾			

(1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (3) The passage of a Texas Constitutional Amendment on May 7, 2022 increased the homestead exemption from \$25,000 to \$40,000.
 (4) During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023. As of the date of this Official Statement, SB 2 has not yet been signed into law by the Governor.
 (5) Source: Certified Values from Grayson Central Appraisal District as of July 21, 2023.
 (6) Source: Bells ISD Audited Financial Statements.
 (7) Excludes penalties and interest.
 (8) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.
 (9) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

TAX RATE DISTRIBUTION ⁽¹⁾

	2018/19	2019/20 ⁽²⁾	2020/21	2021/22	2022/23
Maintenance & Operations	\$1.1700	\$1.0684	\$1.0242	\$0.9661	\$0.9429
Debt Service	\$0.3350	\$0.3156	\$0.3156	\$0.3156	\$0.3156
Total Tax Rate	\$1.5050	\$1.3840	\$1.3398	\$1.2817	\$1.2585

(1) On September 30, 2006, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed \$1.17.

(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 120,736,159	\$ 4,015,000	3.33%
2007/08	132,854,722	1,503,969	1.13%
2008/09	135,763,801	11,007,567	8.11%
2009/10	160,908,245	10,742,419	6.68%
2010/11	203,098,321	10,537,419	5.19%
2011/12	195,951,450	10,272,419	5.24%
2012/13	192,161,493	9,997,419	5.20%
2013/14	188,225,598	9,707,419	5.16%
2014/15	194,299,728	9,412,419	4.84%
2015/16	201,569,597	9,107,419	4.52%
2016/17	214,690,740	8,795,000	4.10%
2017/18	235,806,408	16,220,000	6.88%
2018/19	261,362,168	15,855,000	6.07%
2019/20	316,028,420	15,470,000	4.90%
2020/21	339,123,971	15,070,000	4.44%
2021/22	372,730,477	14,655,000	3.93%
2022/23	427,377,947	39,875,000 ⁽⁴⁾	9.33%
2023/24	425,546,648 ⁽³⁾	39,415,000 ⁽⁴⁾	9.26%

(1) At fiscal year end.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" and "MAINTENANCE TAX OBLIGATIONS DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2022" in Appendix D for more information.

(3) Source: Certified Values from the Grayson Central Appraisal District as of July 21, 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023. As of the date of this Official Statement, SB 2 has not yet been signed into law by the Governor.

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

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Bells, City of	\$ -	100.00%	\$ -
Grayson County	22,295,000	2.53%	564,064
Grayson College	16,610,000	2.53%	420,233
Total Overlapping Debt ⁽¹⁾			\$ 984,297
Bells Independent School District ⁽²⁾			38,776,807
Total Direct & Overlapping Debt ⁽²⁾			\$ 39,761,104
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		9.34%	
Per Capita Direct & Overlapping Debt		\$8,360	

(1) Equals gross debt less self-supporting debt.

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

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.

PRINCIPAL TAXPAYERS ⁽¹⁾**2022/23 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Seaway Crude Pipeline LP	Pipeline	\$ 37,689,606	8.82%
Gulf Crossing Pipeline Co.	Pipeline	28,876,404	6.76%
Grayson-Collin Electric Co-op	Electric Utility	3,918,500	0.92%
ONEOK Sterling III Pipeline	Pipeline	3,824,977	0.89%
Enterprise Texas Pipeline LP	Pipeline	3,809,390	0.89%
Oncor Electric Delivery Co.	Electric Utility	3,757,371	0.88%
Smith Real Estate Development LLC	Real Estate	2,775,347	0.65%
C K J Trucking Inc.	Trucking	2,432,775	0.57%
John & Mark Family LP	Personal	1,969,818	0.46%
Jared Ray Kelley & Carrie Annette	Residential	1,927,552	0.45%
		<u>\$ 90,981,740</u>	<u>21.29%</u>

2021/22 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Seaway Crude Pipeline LP	Pipeline	\$ 40,630,246	10.90%
Gulf Crossing Pipeline Co.	Pipeline	29,362,017	7.88%
Enterprise Texas Pipeline LP	Pipeline	4,810,188	1.29%
ONEOK Sterling III Pipeline	Pipeline	3,703,246	0.99%
Grayson-Collin Electric Co-op	Electric Utility	3,370,068	0.90%
Oncor Electric Delivery Co.	Electric Utility	3,321,532	0.89%
C K J Trucking Inc.	Trucking	3,237,255	0.87%
Smith Real Estate Development LLC	Real Estate	1,907,315	0.51%
Atmos Energy/Mid-Tex Pipeline	Pipeline	1,872,826	0.50%
John & Mark Family LP	Personal	1,645,405	0.44%
		<u>\$ 93,860,098</u>	<u>25.18%</u>

2020/21 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Seaway Crude Pipeline LP	Pipeline	\$ 38,599,310	11.38%
Gulf Crossing Pipeline Co.	Pipeline	29,054,302	8.57%
Enterprise Texas Pipeline LP	Pipeline	4,408,232	1.30%
Grayson-Collin Electric Co-op	Electric Utility	3,543,052	1.04%
ONEOK Sterling III Pipeline	Pipeline	3,458,402	1.02%
C K J Trucking Inc.	Trucking	3,237,255	0.95%
Oncor Electric Delivery Co.	Electric Utility	3,217,030	0.95%
Lattimore Materials Company	Building Materials	2,104,969	0.62%
Atmos Energy/Mid-Tex Pipeline	Pipeline	1,863,441	0.55%
Prime Livestock LLC	Livestock	1,719,259	0.51%
		<u>\$ 91,205,252</u>	<u>26.89%</u>

(1) Source: Comptroller of Public Accounts - Property Tax Division.

Note: As shown in the table above, the top ten taxpayers in the District account for in excess of 21% of the District's tax base. Adverse developments in economic conditions could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY ⁽¹⁾

<u>Category</u>	<u>2022/23</u>	<u>% of Total</u>	<u>2021/22</u>	<u>% of Total</u>	<u>2020/21</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 252,588,708	27.94%	\$ 178,682,638	27.65%	\$ 191,117,001	31.82%
Real, Residential, Multi-Family	4,179,015	0.46%	3,214,683	0.50%	2,130,334	0.35%
Real, Vacant Lots/Tracts	4,777,162	0.53%	3,002,673	0.46%	2,386,614	0.40%
Real, Qualified Land & Improvements	342,239,026	37.86%	216,822,972	33.55%	182,899,841	30.46%
Real, Non-Qualified Land & Improvements	183,527,991	20.30%	127,358,026	19.71%	106,304,690	17.70%
Real, Commercial & Industrial	13,056,151	1.44%	10,768,505	1.67%	12,043,105	2.01%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	64,385,390	7.12%	67,284,365	10.41%	64,001,344	10.66%
Tangible Personal, Commercial	9,124,845	1.01%	9,398,656	1.45%	10,293,488	1.71%
Tangible Personal, Industrial	26,081,486	2.89%	26,148,570	4.05%	26,339,197	4.39%
Tangible Personal, Mobile Homes & Other	3,948,288	0.44%	3,566,222	0.55%	2,941,853	0.49%
Tangible Personal, Residential Inventory	-	0.00%	-	0.00%	71,052	0.01%
Total Appraised Value	\$ 903,908,062	100.00%	\$ 646,247,310	100.00%	\$ 600,528,519	100.00%
Less:						
Homestead Cap Adjustment	\$ 85,101,305		\$ 24,595,015		\$ 46,556,549	
Productivity Loss	334,545,131		210,062,210		177,018,799	
Exemptions	<u>56,883,679</u> ⁽²⁾		<u>38,859,608</u> ⁽³⁾		<u>37,829,200</u> ⁽³⁾	
Total Exemptions/Deductions ⁽⁴⁾	\$ 476,530,115		\$ 273,516,833		\$ 261,404,548	
Net Taxable Assessed Valuation	\$ 427,377,947		\$ 372,730,477		\$ 339,123,971	

<u>Category</u>	<u>2019/20</u>	<u>% of Total</u>	<u>2018/19</u>	<u>% of Total</u>	<u>2017/18</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 149,065,651	28.45%	\$ 131,980,269	30.68%	\$ 118,538,983	30.81%
Real, Residential, Multi-Family	1,916,215	0.37%	1,758,206	0.41%	1,464,930	0.38%
Real, Vacant Lots/Tracts	2,204,964	0.42%	2,006,849	0.47%	1,764,604	0.46%
Real, Qualified Land & Improvements	159,146,182	30.37%	126,170,759	29.33%	103,513,047	26.90%
Real, Non-Qualified Land & Improvements	98,486,341	18.79%	84,442,154	19.63%	74,715,028	19.42%
Real, Commercial & Industrial	12,650,053	2.41%	12,096,035	2.81%	10,701,523	2.78%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	60,464,224	11.54%	29,795,405	6.93%	32,315,448	8.40%
Tangible Personal, Commercial	10,497,597	2.00%	11,759,963	2.73%	10,905,604	2.83%
Tangible Personal, Industrial	27,049,402	5.16%	27,816,074	6.47%	28,747,953	7.47%
Tangible Personal, Mobile Homes & Other	2,488,161	0.47%	2,294,979	0.53%	1,969,125	0.51%
Tangible Personal, Residential Inventory	<u>60,667</u>	<u>0.01%</u>	<u>86,059</u>	<u>0.02%</u>	<u>152,363</u>	<u>0.04%</u>
Total Appraised Value	\$ 524,029,457	100.00%	\$ 430,206,752	100.00%	\$ 384,788,608	100.00%
Less:						
Homestead Cap Adjustment	\$ 18,058,384		\$ 13,707,357		\$ 17,432,482	
Productivity Loss	153,201,567		120,395,169		97,924,064	
Exemptions	<u>36,741,086</u> ⁽³⁾		<u>34,742,058</u> ⁽³⁾		<u>33,625,654</u> ⁽³⁾	
Total Exemptions/Deductions ⁽⁴⁾	\$ 208,001,037		\$ 168,844,584		\$ 148,982,200	
Net Taxable Assessed Valuation	\$ 316,028,420		\$ 261,362,168		\$ 235,806,408	

(1) Source: Comptroller of Public Accounts - Property Tax Division.

(2) The passage of a Texas Constitutional Amendment on May 7, 2022 increased the homestead exemption from \$25,000 to \$40,000.

(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 8/31	Outstanding Bonds	Plus: The Bonds ⁽¹⁾	Total ⁽¹⁾	Bonds Unpaid At Year End ⁽¹⁾	Percent of Principal Retired
2023	\$ 435,000.00	\$ -	\$ 435,000.00	\$ 39,875,000.00	1.08%
2024	460,000.00	-	460,000.00	39,415,000.00	2.22%
2025	480,000.00	-	480,000.00	38,935,000.00	3.41%
2026	500,000.00	-	500,000.00	38,435,000.00	4.65%
2027	520,000.00	100,000.00	620,000.00	37,815,000.00	6.19%
2028	535,000.00	305,000.00	840,000.00	36,975,000.00	8.27%
2029	550,000.00	320,000.00	870,000.00	36,105,000.00	10.43%
2030	515,000.00	385,000.00	900,000.00	35,205,000.00	12.66%
2031	530,000.00	410,000.00	940,000.00	34,265,000.00	15.00%
2032	545,000.00	430,000.00	975,000.00	33,290,000.00	17.42%
2033	560,000.00	455,000.00	1,015,000.00	32,275,000.00	19.93%
2034	575,000.00	480,000.00	1,055,000.00	31,220,000.00	22.55%
2035	590,000.00	505,000.00	1,095,000.00	30,125,000.00	25.27%
2036	610,000.00	530,000.00	1,140,000.00	28,985,000.00	28.09%
2037	625,000.00	560,000.00	1,185,000.00	27,800,000.00	31.03%
2038	645,000.00	590,000.00	1,235,000.00	26,565,000.00	34.10%
2039	510,000.00	785,000.00	1,295,000.00	25,270,000.00	37.31%
2040	530,000.00	830,000.00	1,360,000.00	23,910,000.00	40.68%
2041	545,000.00	875,000.00	1,420,000.00	22,490,000.00	44.21%
2042	565,000.00	915,000.00	1,480,000.00	21,010,000.00	47.88%
2043	585,000.00	955,000.00	1,540,000.00	19,470,000.00	51.70%
2044	605,000.00	1,000,000.00	1,605,000.00	17,865,000.00	55.68%
2045	625,000.00	1,045,000.00	1,670,000.00	16,195,000.00	59.82%
2046	650,000.00	1,085,000.00	1,735,000.00	14,460,000.00	64.13%
2047	670,000.00	1,135,000.00	1,805,000.00	12,655,000.00	68.61%
2048	695,000.00	1,185,000.00	1,880,000.00	10,775,000.00	73.27%
2049	-	1,970,000.00	1,970,000.00	8,805,000.00	78.16%
2050	-	2,060,000.00	2,060,000.00	6,745,000.00	83.27%
2051	-	2,150,000.00	2,150,000.00	4,595,000.00	88.60%
2052	-	2,245,000.00	2,245,000.00	2,350,000.00	94.17%
2053	-	2,350,000.00	2,350,000.00	-	100.00%
Total	<u>\$ 14,655,000.00</u>	<u>\$ 25,655,000.00</u>	<u>\$ 40,310,000.00</u>		

(1) Preliminary, subject to change.

MAINTENANCE TAX OBLIGATIONS DEBT SERVICE REQUIREMENTS ⁽¹⁾

Fiscal Year Ending 8/31	Principal	Interest	Total	Maintenance Tax Notes Unpaid At Year End	Percent of Principal Retired
2023	\$ 203,000.00	\$ 46,790.74	\$ 249,790.74	\$ 1,324,000.00	13.29%
2024	211,000.00	38,636.16	249,636.16	1,113,000.00	27.11%
2025	217,000.00	32,931.66	249,931.66	896,000.00	41.32%
2026	117,000.00	27,059.20	144,059.20	779,000.00	48.98%
2027	120,000.00	23,525.80	143,525.80	659,000.00	56.84%
2028	124,000.00	19,901.80	143,901.80	535,000.00	64.96%
2029	128,000.00	16,157.00	144,157.00	407,000.00	73.35%
2030	132,000.00	12,291.40	144,291.40	275,000.00	81.99%
2031	135,000.00	8,305.00	143,305.00	140,000.00	90.83%
2032	<u>140,000.00</u>	<u>4,228.00</u>	<u>144,228.00</u>	-	100.00%
	<u>\$ 1,527,000.00</u>	<u>\$ 229,826.76</u>	<u>\$ 1,756,826.76</u>		

(1) Maintenance Tax Obligations are payable solely from the limited maintenance and operations tax or other lawfully available funds of the District.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus:			Combined Total ^{(1) (2)}
		Principal	The Bonds ⁽¹⁾		
			Interest	Total	
2023	\$ 929,687.50	\$ -	\$ 88,455.47	\$ 88,455.47	\$ 1,018,142.97
2024	932,937.50	-	1,136,816.58	1,136,816.58	2,069,754.08
2025	929,937.50	-	1,179,406.26	1,179,406.26	2,109,343.76
2026	930,237.50	-	1,179,406.26	1,179,406.26	2,109,643.76
2027	929,737.50	100,000.00	1,176,781.26	1,276,781.26	2,206,518.76
2028	930,362.50	305,000.00	1,166,150.01	1,471,150.01	2,401,512.51
2029	930,612.50	320,000.00	1,149,743.76	1,469,743.76	2,400,356.26
2030	880,962.50	385,000.00	1,131,237.51	1,516,237.51	2,397,200.01
2031	881,287.50	410,000.00	1,110,368.76	1,520,368.76	2,401,656.26
2032	881,162.50	430,000.00	1,088,318.76	1,518,318.76	2,399,481.26
2033	880,587.50	455,000.00	1,065,087.51	1,520,087.51	2,400,675.01
2034	879,562.50	480,000.00	1,040,543.76	1,520,543.76	2,400,106.26
2035	878,087.50	505,000.00	1,014,687.51	1,519,687.51	2,397,775.01
2036	881,237.50	530,000.00	987,518.76	1,517,518.76	2,398,756.26
2037	878,737.50	560,000.00	958,906.26	1,518,906.26	2,397,643.76
2038	878,437.50	590,000.00	928,718.76	1,518,718.76	2,397,156.26
2039	722,487.50	785,000.00	892,625.01	1,677,625.01	2,400,112.51
2040	721,450.00	830,000.00	850,231.26	1,680,231.26	2,401,681.26
2041	717,900.00	875,000.00	805,475.01	1,680,475.01	2,398,375.01
2042	718,825.00	915,000.00	763,062.51	1,678,062.51	2,396,887.51
2043	719,050.00	955,000.00	723,325.01	1,678,325.01	2,397,375.01
2044	718,575.00	1,000,000.00	681,781.26	1,681,781.26	2,400,356.26
2045	717,400.00	1,045,000.00	638,325.01	1,683,325.01	2,400,725.01
2046	720,525.00	1,085,000.00	593,062.51	1,678,062.51	2,398,587.51
2047	717,775.00	1,135,000.00	545,887.51	1,680,887.51	2,398,662.51
2048	719,325.00	1,185,000.00	496,587.51	1,681,587.51	2,400,912.51
2049	-	1,970,000.00	428,312.51	2,398,312.51	2,398,312.51
2050	-	2,060,000.00	340,156.26	2,400,156.26	2,400,156.26
2051	-	2,150,000.00	248,062.51	2,398,062.51	2,398,062.51
2052	-	2,245,000.00	151,921.88	2,396,921.88	2,396,921.88
2053	-	2,350,000.00	51,406.25	2,401,406.25	2,401,406.25
	<u>\$ 21,626,887.50</u>	<u>\$ 25,655,000.00</u>	<u>\$ 24,612,369.20</u>	<u>\$ 50,267,369.20</u>	<u>\$ 71,894,256.70</u>

(1) Preliminary, subject to change.

(2) Based on it's wealth per student, the District does not expect to receive state financial assistance for the payment of debt service for the fiscal year 2022/23. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 2,401,681.26
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption in 2022/23 ⁽²⁾	<u>43,500.00</u>
Projected Net Debt Service Requirement ^{(1) (2)}	\$ 2,358,181.26
 \$0.56546 Tax Rate @ 98% Collections Produces	 \$ 2,358,181.26
 2023/24 Certified Net Taxable Assessed Valuation ⁽³⁾	 \$ 425,546,648

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

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2022/23, but will receive additional state aid for the increase in the homestead exemption which took effect in 2022/23.

(3) Source: Certified Values from the Grayson Central Appraisal District as of July 21, 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023. As of the date of this Official Statement, SB 2 has not yet been signed into law by the Governor.

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

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will not any of authorized but unissued unlimited ad valorem tax bonds from the May 6, 2023 bond election (preliminary, subject to change). The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Year Ended August 31				
	2018	2019	2020	2021	2022
Beginning Fund Balance	\$ 2,700,346	\$ 2,325,405	\$ 2,687,322	\$ 3,912,324	\$ 4,805,177
Revenues:					
Local and Intermediate Sources	\$ 2,855,894	\$ 3,056,990	\$ 3,309,238	\$ 3,400,239	\$ 3,568,201
State Sources	5,577,752	5,913,904	7,016,837	7,144,072	7,604,090
Federal Sources & Other	24,248	32,250	-	-	-
Total Revenues	\$ 8,457,894	\$ 9,003,144	\$ 10,326,075	\$ 10,544,311	\$ 11,172,291
Expenditures:					
Instruction	\$ 4,389,616	\$ 4,614,402	\$ 5,113,469	\$ 5,209,429	\$ 5,541,232
Instructional Resources & Media Services	233,186	241,980	252,928	261,486	149,496
Curriculum & Instructional Staff Development	130,305	134,514	148,149	149,816	170,843
Instructional Leadership	-	3,679	56,931	-	-
School Leadership	439,458	449,080	472,363	547,838	567,150
Guidance, Counseling & Evaluation Services	192,836	199,076	220,110	226,289	240,168
Health Services	64,597	66,205	78,005	134,007	134,373
Student (Pupil) Transportation	241,865	322,916	206,849	442,391	304,492
Cocurricular/Extracurricular Activities	510,956	524,245	533,551	505,058	623,646
General Administration	300,532	307,068	307,178	310,617	318,019
Plant Maintenance and Operations	836,023	864,629	986,317	1,006,188	1,084,377
Security and Monitoring Services	7,321	148,854	133,132	142,958	135,990
Data Processing Services	158,522	166,224	179,598	183,907	180,520
Facilities Acquisition and Construction	245,267	84,008	-	303,442	2,024,537
Principal on Long Term Debt	88,000	90,000	92,000	94,000	161,429
Interest on Long Term Debt	17,975	15,899	13,776	11,455	10,750
Payments to Shared Service Arrangements	141,766	170,591	232,001	244,735	278,941
Other Intergovernmental Charges	59,395	64,857	74,716	78,642	83,963
Total Expenditures	\$ 8,057,620	\$ 8,468,227	\$ 9,101,073	\$ 9,852,258	\$ 12,009,926
Excess (Deficiency) of Revenues over Expenditures	\$ 400,274	\$ 534,917	\$ 1,225,002	\$ 692,053	\$ (837,635)
Other Resources and (Uses):					
Transfers In	\$ 24,785	\$ 95,000	\$ -	\$ 199,800	\$ -
Transfers Out	(800,000)	(268,000)	-	-	-
Non-Current Loans	-	-	-	-	123,904
Sale of Real or Personal Property	-	-	-	1,000	-
Total Other Resources (Uses)	\$ (775,215)	\$ (173,000)	\$ -	\$ 200,800	\$ 123,904
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (374,941)	\$ 361,917	\$ 1,225,002	\$ 892,853	\$ (713,731)
Ending Fund Balance ⁽²⁾	\$ 2,325,405	\$ 2,687,322	\$ 3,912,324	\$ 4,805,177	\$ 4,091,446

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budgets and Rates" in Appendix D hereto for a discussion of the 2022/23 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.
(2) The District anticipates the General Fund balance as of August 31, 2023 to be approximately \$4,800,000.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2018	2019	2020	2021	2022
Revenues:					
Program Revenues:					
Charges for Services	\$ 466,611	\$ 537,957	\$ 395,094	\$ 372,772	\$ 480,899
Operating Grants and Contributions	(701,261)	1,064,843	1,293,037	1,370,125	1,393,886
General Revenues:					
Property Taxes Levied for General Purposes	2,615,315	2,873,013	3,195,711	3,267,793	3,370,535
Property Taxes Levied for Debt Service	693,116	822,656	943,811	1,007,185	1,100,857
State Aid - Formula Grants	5,393,324	5,695,619	6,617,644	6,780,228	7,239,072
Grants and Contributions Not Restricted	77,638	103,299	160,451	93,945	146,605
Investment Earnings	60,294	235,296	65,952	7,680	30,690
Miscellaneous	139,363	51,449	36,432	4,023	57,293
Special Item - Gain on Asset Sale	-	-	-	1,000	-
Total Revenue	\$ 8,744,400	\$ 11,384,132	\$ 12,708,132	\$ 12,904,751	\$ 13,819,837
Expenses:					
Instruction	\$ 3,373,426	\$ 5,372,508	\$ 6,197,958	\$ 5,978,403	\$ 6,195,221
Instruction Resources & Media Services	192,610	271,317	290,049	294,711	236,691
Curriculum & Staff Development	131,718	171,693	193,688	203,699	208,822
Instructional Leadership	-	3,679	64,790	-	-
School Leadership	348,705	507,324	545,218	616,425	586,236
Guidance, Counseling & Evaluation Services	138,254	221,885	250,827	250,684	244,057
Health Services	48,389	77,206	92,268	148,908	134,131
Student Transportation	185,524	265,805	329,338	369,693	375,420
Food Service	322,903	464,719	457,237	497,462	573,507
Cocurricular/Extracurricular Activities	591,963	797,521	718,534	730,158	893,833
General Administration	263,095	349,031	353,447	345,549	334,497
Plant Maintenance & Operations	838,478	890,593	1,024,331	998,688	1,109,827
Security and Monitoring Services	7,321	135,943	180,990	139,688	135,748
Data Processing Services	146,609	182,904	199,295	203,630	193,344
Community Services	20,760	42,548	19,844	20,908	21,618
Debt Service - Interest on Long-term Debt	297,168	561,447	521,189	502,690	487,003
Debt Service - Bond Issuance Cost and Fees	94,853	2,250	4,000	3,500	28,500
Payments to Fiscal Agent/Member Districts of SSA	141,766	170,591	232,001	244,735	278,941
Other Intergovernmental Charges	59,395	64,857	74,716	78,642	83,963
Total Expenditures	\$ 7,202,937	\$ 10,553,821	\$ 11,749,720	\$ 11,628,173	\$ 12,121,359
Change in Net Assets	\$ 1,541,463	\$ 830,311	\$ 958,412	\$ 1,276,578	\$ 1,698,478
Beginning Net Assets	\$ 5,133,798	\$ 2,666,970	\$ 3,497,281	\$ 4,455,693	\$ 5,732,271
Prior Period Adjustment	\$ (4,008,291) ⁽²⁾		\$ -	\$ -	\$ -
Ending Net Assets	\$ 2,666,970	\$ 3,497,281	\$ 4,455,693	\$ 5,732,271	\$ 7,430,749

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34.

(2) The 2018 prior period adjustment was the result of implementing GASB Statement 75.

APPENDIX B

**GENERAL INFORMATION REGARDING THE DISTRICT
AND ITS ECONOMY**

General and Economic Information

Bells Independent School District is located in north central Texas with its northeast corner bordering the State of Oklahoma and includes the City of Bells, which is located at the intersection of U.S. Highways 69 and 82. The District is located within the Sherman-Denison metropolitan area, which allows residents to enjoy the benefits of a major metropolitan area.

Grayson County was created in 1846 from Fannin County. The county seat is Sherman.

Source: *Municipal Advisory Council Report.*

Enrollment Statistics

<u>School Year</u>	<u>Enrollment</u>
2012/13	783
2013/14	780
2014/15	752
2015/16	769
2016/17	785
2017/18	822
2018/19	895
2019/20	885
2020/21	868
2021/22	884
2022/23	961

District Staff

Teachers	79
Auxiliary Personnel	20
Teachers' Aides & Secretaries	21
Administrators	8
Other (Counselor, Nurse and Computer Tech)	9
Total	137

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Elementary School	PK-5	445	500	2006	NA
Junior High School	6-8	213	225	1994	2009
High School	9-12	303	300	1987	1996

Source: *Bells Independent School District.*

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Bells ISD	Education	137
Lattimore Materials Company	Sand/Gravel	75
Cendera Bank of Bells/Savoy	Bank	20

Source: *Bells Independent School District*

Unemployment Rates

	<u>May 2021</u>	<u>May 2022</u>	<u>May 2023</u>
Grayson County	4.5%	3.5%	3.9%
State of Texas	5.7%	3.6%	4.1%

Source: *Texas Workforce Commission.*

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Proposed Form of Opinion of Bond Counsel

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

**BELLS INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$25,655,000

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

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

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

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



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

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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

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



the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2022**

**BELLS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2022**

BELLS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2022

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CERTIFICATE OF BOARD

Bells Independent School District
Name of School District

Grayson
County

091-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2022 at a meeting of the Board of Trustees of such school district on the 16th day of January , 2023.

/s/ Gary Payne

/s/ Matt Stephens

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)

Morgan, Davis, & Company, P.C.
Post Office Box 8158
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information
and Other Supplementary Information**

Independent Auditor's Report

Bells Independent School District
1550 Ole Ambrose Road
Bells, Texas 75414

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bells Independent School District as of and for the year ended August 31, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Bells Independent School District as of August 31, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules contained in Exhibits G-1 through G-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2, the Texas Education Agency required schedules contained in Exhibits J-1 through J-4, and the Schedule of Expenditures of Federal Awards on Exhibit K-1, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Statements for Nonmajor Governmental Funds, the Texas Education Agency required schedules, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis, & Company, P.C.
 Greenville, Texas
 January 9, 2023

BELLS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2022

In this section of the Annual Financial and Compliance Report, we, the administrators of Bells Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2022. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position increased by \$1,698,478 as a result of this year's operations.
- The District's assets exceeded its liabilities at the close of the most recent fiscal year by \$7,430,749 which represents the District's total combined net position.
- As of August 31, 2022, the District's governmental funds reported a combined fund balance of \$6,411,499 compared to \$5,920,699 for the last fiscal year. The General Fund reported a fund balance of \$4,091,446 this fiscal year compared to \$4,805,177 the last fiscal year.
- The District's total tax rate for the 2021-2022 school year was \$ 1.2817 with \$ 0.9661 for maintenance & operation and \$ 0.3156 for debt service.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). 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.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 12. 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 costs of some programs, such as tuition received from students from outside the district and 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 them. The District's net position (the difference between assets 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 are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial 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 has one kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESSA Title I Part A 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. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These funds 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 a 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.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statement of Fiduciary Net Position on page 25 and Statement of Changes in Fiduciary Fund Net Position on page 26. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$5,732,271 last year to \$7,430,749 at August 31, 2022. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$159,192 last year to \$(370,716) at August 31, 2022.

Changes in net position of the District's governmental activities were a \$1,276,578 increase last year compared to a \$1,698,478 increase at August 31, 2022.

Table I
Bells Independent School District
NET POSITION

	Governmental Activities 8/31/2022	Governmental Activities 8/31/2021	Net Change
Current and other assets	\$7,435,519	\$6,771,191	\$664,328
Capital assets	22,407,143	20,603,198	1,803,945
Total assets	<u>\$29,842,662</u>	<u>\$27,374,389</u>	<u>\$2,468,273</u>
Deferred Outflows	\$2,824,105	\$2,291,055	\$533,050
Current and other liabilities	\$666,140	\$594,642	\$71,498
Long-term liabilities	16,967,106	16,189,395	777,711
Net Pension Liability (District's Share)	1,055,852	1,961,304	(905,452)
Net OPEB Liability (District's Share)	3,152,114	2,791,759	360,355
Total liabilities	<u>\$21,841,212</u>	<u>\$21,537,100</u>	<u>\$304,112</u>
Deferred Inflows	\$3,394,806	\$2,396,073	\$998,733
Net Position:			
Net Investment in Capital Assets	\$6,292,729	\$4,413,803	\$1,878,926
Restricted	1,508,736	1,159,276	349,460
Unrestricted	(370,716)	159,192	(529,908)
Total Net Position	<u><u>\$7,430,749</u></u>	<u><u>\$5,732,271</u></u>	<u><u>\$1,698,478</u></u>

Table II
Bells Independent School District
CHANGES IN NET POSITION

	Governmental Activities Yr Ended 8/31/2022	Governmental Activities Yr Ended 8/31/2021	Net Change
Revenues:			
Program Revenues:			
Charges for Services	\$480,899	\$372,772	\$108,127
Operating grants and contributions	1,393,886	1,370,125	23,761
General Revenues:			
Maintenance and operations taxes	3,370,535	3,267,793	102,742
Debt service taxes	1,100,857	1,007,185	93,672
State aid - formula grants	7,239,072	6,780,228	458,844
Grants & Contributions not restricted to specific functions	146,605	93,945	52,660
Investment Earnings	30,690	7,680	23,010
Miscellaneous	57,293	4,023	53,270
Total Revenue	\$13,819,837	\$12,903,751	\$916,086
Expenses:			
Instruction, curriculum and media services	\$6,640,734	\$6,476,813	\$163,921
Instructional and school leadership	586,236	616,425	(30,189)
Student support services	753,608	769,285	(15,677)
Child nutrition	573,507	497,462	76,045
Co curricular activities	893,833	730,158	163,675
General administration	334,497	345,549	(11,052)
Plant maintenance, security & data processing	1,438,919	1,342,006	96,913
Community services	21,618	20,908	710
Debt services	515,503	506,190	9,313
Payments to fiscal agents	278,941	244,735	34,206
Other intergovernmental charges	83,963	78,642	5,321
Total Expenses	\$12,121,359	\$11,628,173	\$493,186
Increase in net position before transfers and special items	\$1,698,478	\$1,275,578	\$422,900
Transfers	0	0	0
Special Items - Gain on Asset Sale	0	1,000	(1,000)
Net Position at Beginning of Fiscal Year	5,732,271	4,455,693	1,276,578
Net Position at End of Fiscal Year	\$7,430,749	\$5,732,271	\$1,698,478

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$6,411,499, compared to \$5,920,699 for the last fiscal year. The District's General Fund reported a fund balance decrease of \$713,731, ending the year with \$4,091,446. The District's Special Revenue Funds reported a combined fund balance increase of \$152,279, ending the year with \$369,168. The District's Debt Service Fund reported a fund balance increase of \$199,560, ending the year with \$1,098,193. The District's Capital Projects Fund reported a fund balance increase of \$852,692, ending the year with \$852,692.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2021) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the year ended August 31, 2022, the District invested \$2,849,087 in capital assets, consisting of land purchased, miscellaneous improvements, various equipment, and a suburban.

Capital asset activity for the year ended August 31, 2022 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land	\$92,345	\$1,208,784	\$0	\$1,301,129
Buildings & Improvements	30,882,435	872,563	0	31,754,998
Equipment	1,042,192	725,800	0	1,767,992
Vehicles	1,330,485	41,940	0	1,372,425
Right-to-use Lease Assets-Equipment	45,398	0	0	45,398
Totals at Historical Cost	<u>33,392,855</u>	<u>2,849,087</u>	<u>0</u>	<u>36,241,942</u>
Less accumulated depreciation for:				
Buildings & Improvements	(11,453,569)	(861,085)	0	(12,314,654)
Equipment	(471,658)	(113,398)	0	(585,056)
Vehicles	(819,032)	(93,358)	0	(912,390)
Right-to-use Lease Assets-Equipment	0	(22,699)	0	(22,699)
Total accumulated depreciation	<u>(12,744,259)</u>	<u>(1,090,540)</u>	<u>0</u>	<u>(13,834,799)</u>
Capital Assets, Net	<u>\$20,648,596</u>	<u>\$1,758,547</u>	<u>\$0</u>	<u>\$22,407,143</u>

Debt:

At year-end August 31, 2022, the District had \$15,336,233 outstanding in bonds compared to \$15,791,395 last year. Also, at August 31, 2022, the District had \$1,607,875 outstanding in loans compared to \$398,000 last year and \$22,999 outstanding in right-to-use lease liability compared to \$45,398 last year. During the year, the District borrowed \$1,348,904 in new loans.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2023 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2023. Amounts available for appropriation in the General Fund budget are \$2,866,446. The District has added no major new programs or initiatives to the 2023 budget.

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 Bells Independent School District, 1550 Ole Ambrose Road, Bells, Texas.

BASIC FINANCIAL STATEMENTS

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2022

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,214,188
1120 Current Investments	5,003,277
1220 Property Taxes - Delinquent	191,884
1230 Allowance for Uncollectible Taxes	(3,445)
1240 Due from Other Governments	1,026,815
1290 Other Receivables, Net	2,800
Capital Assets:	
1510 Land	1,301,129
1520 Buildings, Net	19,440,344
1530 Furniture and Equipment, Net	1,182,936
1540 Vehicles, Net	460,035
1550 Right-to-Use Leased Assets, Net	22,699
1000 Total Assets	29,842,662
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	914,240
1706 Deferred Outflow Related to TRS OPEB	1,909,865
1700 Total Deferred Outflows of Resources	2,824,105
LIABILITIES	
2110 Accounts Payable	42,731
2140 Interest Payable	22,845
2150 Payroll Deductions and Withholdings	67,825
2160 Accrued Wages Payable	499,250
2180 Due to Other Governments	2,124
2200 Accrued Expenses	10,981
2300 Unearned Revenue	20,384
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	700,434
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	16,266,672
2540 Net Pension Liability (District's Share)	1,055,852
2545 Net OPEB Liability (District's Share)	3,152,114
2000 Total Liabilities	21,841,212
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	1,202,348
2606 Deferred Inflow Related to TRS OPEB	2,192,458
2600 Total Deferred Inflows of Resources	3,394,806
NET POSITION	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	6,292,729
Restricted:	
3820 Restricted for Federal and State Programs	197,774
3850 Restricted for Debt Service	1,139,568
3870 Restricted for Campus Activities	138,382
3880 Restricted for Scholarships	22,017
3890 Restricted for Other Purposes	10,995
3900 Unrestricted	(370,716)
3000 Total Net Position	\$ 7,430,749

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

EXHIBIT B-1

Data	Program Revenues			Net (Expense)	
Control	1	3	4	Revenue and	
Codes	Expenses	Charges for	Operating	Changes in Net	
		Services	Grants and	Position	
			Contributions	Primary Gov.	
				Governmental	
				Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 6,195,221	\$ 49,438	\$ 652,755	\$ (5,493,028)
12	Instructional Resources and Media Services	236,691	-	78,435	(158,256)
13	Curriculum and Instructional Staff Development	208,822	-	24,946	(183,876)
23	School Leadership	586,236	-	(8,037)	(594,273)
31	Guidance, Counseling, and Evaluation Services	244,057	-	(4,673)	(248,730)
33	Health Services	134,131	-	(2,576)	(136,707)
34	Student (Pupil) Transportation	375,420	-	2,099	(373,321)
35	Food Services	573,507	73,601	639,520	139,614
36	Extracurricular Activities	893,833	315,005	(5,512)	(584,340)
41	General Administration	334,497	-	(2,980)	(337,477)
51	Facilities Maintenance and Operations	1,109,827	17,314	25,298	(1,067,215)
52	Security and Monitoring Services	135,748	-	(2,746)	(138,494)
53	Data Processing Services	193,344	-	(2,149)	(195,493)
61	Community Services	21,618	25,541	(494)	3,429
72	Debt Service - Interest on Long-Term Debt	487,003	-	-	(487,003)
73	Debt Service - Bond Issuance Cost and Fees	28,500	-	-	(28,500)
93	Payments Related to Shared Services Arrangements	278,941	-	-	(278,941)
99	Other Intergovernmental Charges	83,963	-	-	(83,963)
	[TP] TOTAL PRIMARY GOVERNMENT:	\$ 12,121,359	\$ 480,899	\$ 1,393,886	(10,246,574)
Data					
Control	General Revenues:				
Codes	Taxes:				
MT	Property Taxes, Levied for General Purposes			3,370,535	
DT	Property Taxes, Levied for Debt Service			1,100,857	
SF	State Aid - Formula Grants			7,239,072	
GC	Grants and Contributions not Restricted			146,605	
IE	Investment Earnings			30,690	
MI	Miscellaneous Local and Intermediate Revenue			57,293	
TR	Total General Revenues			11,945,052	
CN	Change in Net Position			1,698,478	
NB	Net Position - Beginning			5,732,271	
NE	Net Position - Ending			\$ 7,430,749	

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

BELLS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 615,595	\$ 6,966	\$ -
1120 Investments - Current	3,048,733	1,088,684	852,692
1220 Property Taxes - Delinquent	147,360	44,524	-
1230 Allowance for Uncollectible Taxes	(2,646)	(799)	-
1240 Due from Other Governments	978,530	-	-
1260 Due from Other Funds	-	4,667	-
1290 Other Receivables	2,800	-	-
1000 Total Assets	<u>\$ 4,790,372</u>	<u>\$ 1,144,042</u>	<u>\$ 852,692</u>
LIABILITIES			
2150 Payroll Deductions and Withholdings Payable	\$ 67,825	\$ -	\$ -
2160 Accrued Wages Payable	471,999	-	-
2170 Due to Other Funds	4,667	-	-
2180 Due to Other Governments	-	2,124	-
2200 Accrued Expenditures	9,721	-	-
2300 Unearned Revenue	15,365	5,019	-
2000 Total Liabilities	<u>569,577</u>	<u>7,143</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	129,349	38,706	-
2600 Total Deferred Inflows of Resources	<u>129,349</u>	<u>38,706</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	852,692
3480 Retirement of Long-Term Debt	-	1,098,193	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3525 Retirement of Loans or Notes Payable	1,225,000	-	-
3600 Unassigned Fund Balance	2,866,446	-	-
3000 Total Fund Balances	<u>4,091,446</u>	<u>1,098,193</u>	<u>852,692</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,790,372</u>	<u>\$ 1,144,042</u>	<u>\$ 852,692</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 336,226	\$ 958,787
13,168	5,003,277
-	191,884
-	(3,445)
48,285	1,026,815
-	4,667
-	2,800
<u>\$ 397,679</u>	<u>\$ 7,184,785</u>
\$ -	\$ 67,825
27,251	499,250
-	4,667
-	2,124
1,260	10,981
-	20,384
<u>28,511</u>	<u>605,231</u>
-	168,055
<u>-</u>	<u>168,055</u>
197,774	197,774
-	852,692
-	1,098,193
171,394	171,394
-	1,225,000
-	2,866,446
<u>369,168</u>	<u>6,411,499</u>
<u>\$ 397,679</u>	<u>\$ 7,184,785</u>

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BELLS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2022

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	6,411,499
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		212,670
2 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 \$33,392,855, and the accumulated depreciation was \$12,744,259. In addition, long-term liabilities, including bonds payable of \$15,791,395, loans payable of \$398,000, and right-to-use lease liability of \$45,398, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$21,868 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. 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 (decrease) net position.		4,391,935
3 Current year capital outlays of \$2,849,087, and long-term debt principal payments of \$576,429 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. Amortization of bond premiums of \$40,162, and interest payable of \$977 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.		3,464,701
4 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 of \$168,055 as revenue, eliminating interfund transactions, reclassifying loan proceeds of \$1,348,904, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(1,180,849)
5 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,090,540)
6 The District is required by GASB 68 to recognize its proportionate share of the net pension liability of \$1,055,852, a deferred resource inflow of \$1,202,348, and a deferred resource outflow of \$914,240. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(1,343,960)
7 The District is required by GASB 75 to recognize its proportionate share of the OPEB liability of \$3,152,114, a deferred resource inflow of \$2,192,458, a deferred resource outflow of \$1,909,865. The net effect of including the net OPEB liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(3,434,707)
19 Net Position of Governmental Activities	\$	7,430,749

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 3,568,201	\$ 1,122,953	\$ 2,265
5800 State Program Revenues	7,604,090	10,545	-
5900 Federal Program Revenues	-	-	-
5020 Total Revenues	<u>11,172,291</u>	<u>1,133,498</u>	<u>2,265</u>
EXPENDITURES:			
Current:			
0011 Instruction	5,541,232	-	-
0012 Instructional Resources and Media Services	149,496	-	-
0013 Curriculum and Instructional Staff Development	170,843	-	-
0023 School Leadership	567,150	-	-
0031 Guidance, Counseling, and Evaluation Services	240,168	-	-
0033 Health Services	134,373	-	-
0034 Student (Pupil) Transportation	304,492	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	623,646	-	-
0041 General Administration	318,019	-	-
0051 Facilities Maintenance and Operations	1,084,377	-	-
0052 Security and Monitoring Services	135,990	-	-
0053 Data Processing Services	180,520	-	-
0061 Community Services	-	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	161,429	415,000	-
0072 Interest on Long-Term Liabilities	10,750	515,438	-
0073 Bond Issuance Cost and Fees	-	3,500	25,000
Capital Outlay:			
0081 Facilities Acquisition and Construction	2,024,537	-	349,573
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	278,941	-	-
0099 Other Intergovernmental Charges	83,963	-	-
6030 Total Expenditures	<u>12,009,926</u>	<u>933,938</u>	<u>374,573</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(837,635)	199,560	(372,308)
OTHER FINANCING SOURCES (USES):			
7914 Non-Current Loans	123,904	-	1,225,000
1200 Net Change in Fund Balances	(713,731)	199,560	852,692
0100 Fund Balance - September 1 (Beginning)	<u>4,805,177</u>	<u>898,633</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,091,446</u>	<u>\$ 1,098,193</u>	<u>\$ 852,692</u>

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

	Other Governmental Funds	Total Governmental Funds
\$	364,512	\$ 5,057,931
	78,013	7,692,648
	1,478,151	1,478,151
	1,920,676	14,228,730
	751,208	6,292,440
	80,688	230,184
	26,767	197,610
	-	567,150
	73	240,241
	-	134,373
	4,645	309,137
	596,052	596,052
	253,867	877,513
	-	318,019
	33,479	1,117,856
	-	135,990
	-	180,520
	21,618	21,618
	-	576,429
	-	526,188
	-	28,500
	-	2,374,110
	-	278,941
	-	83,963
	1,768,397	15,086,834
	152,279	(858,104)
	-	1,348,904
	152,279	490,800
	216,889	5,920,699
\$	369,168	\$ 6,411,499

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BELLS 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, 2022

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	490,800
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.</p>		
		120,664
<p>Current year capital outlays of \$2,849,087, and long-term debt principal payments of \$476,429 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. Amortization of bond premiums of \$40,162, and interest payable of \$977 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		3,464,701
<p>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 by \$17,657 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying loan proceeds of \$1,348,904, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		(1,366,561)
<p>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.</p>		
		(1,090,540)
<p>Current year changes due to GASB 68 increased revenues in the amount of \$232,167, but also increased expenses in the amount of \$330,355. The impact of these items is to increase (decrease) the change in net position.</p>		
		98,168
<p>Current year changes due to GASB 75 increased revenues in the amount of \$159,069, but also increased expenses in the amount of \$140,315. The impact of these items is to increase (decrease) the change in net position.</p>		
		(18,754)
Change in Net Position of Governmental Activities	\$	1,698,478

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2022

	Governmental Activities -	
		Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	255,401
Total Assets		255,401
LIABILITIES		
Current Liabilities:		
Accounts Payable		42,731
Total Liabilities		42,731
NET POSITION		
Unrestricted Net Position		212,670
Total Net Position	\$	212,670

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 120,664
Total Operating Revenues	120,664
Operating Income	120,664
Total Net Position - September 1 (Beginning)	92,006
 Total Net Position - August 31 (Ending)	 \$ 212,670

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

EXHIBIT D-3

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 120,664
Cash Payments for Insurance Claims	(10,090)
Net Cash Provided by Operating Activities	110,574
Net Increase in Cash and Cash Equivalents	110,574
Cash and Cash Equivalents at Beginning of Year	144,827
Cash and Cash Equivalents at End of Year	\$ 255,401
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 120,664
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(10,090)
Net Cash Provided by Operating Activities	\$ 110,574

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2022

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	\$ 8,884
Total Assets	8,884
NET POSITION	
Unrestricted Net Position	8,884
Total Net Position	\$ 8,884

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

BELLS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

	Custodial Fund
ADDITIONS:	
Cocurricular Services or Activities	\$ 33,011
Earnings from Temporary Deposits	19
Total Additions	33,030
DEDUCTIONS:	
Other Deductions	35,737
Total Deductions	35,737
Change in Fiduciary Net Position	(2,707)
Total Net Position - September 1 (Beginning)	11,591
Total Net Position - August 31 (Ending)	\$ 8,884

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

BELLS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bells 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 (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 76, 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.

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.

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 resource 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.

A. Reporting Entity

The Board of Trustees is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *"The Financial Reporting Entity,"* There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Bells 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. Property taxes are always general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those clearly identifiable within a function. Depreciation expense is specifically identified by function and is included in the direct expense to each function.

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 and internal service 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. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid “grossing up” the revenues and expenses of the District as a whole.

Fund Financial Statements - 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.

Proprietary funds distinguish operating revenues and expenditures from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund’s principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor or direct overhead. Other expenses are nonoperating.

C. 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, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. All assets, liabilities, and deferred inflows of resources associated with the operation of the District are included on the Statement of Net Position. 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.

All governmental fund financial statements are accounted for using 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. The Statement of Revenues, Expenditures, and Changes in Fund Balance report the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with a brief explanation to better identify the relationship between government-wide statements and the governmental fund statements. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. It recognizes 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. The expenditures related to certain compensated absences and claims and judgements are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the District, the phrase “available for exchange transactions” means expected to be received within 60 days of the year-end.

Revenues – Non-exchange Transactions – Non-exchange transactions in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On the government-wide financial statements, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized in the governmental funds.

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 revenues 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 unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The net position is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Expenditures/Expenses – On the accrual basis of accounting (government-wide financial statements), expenses are recognized at the time there are incurred. On the modified accrual basis (fund financial statements), expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

D. Fund Accounting

The District reports the following major governmental funds:

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

Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Capital Projects Fund – The District accounts for loan financial resources to be used for the acquisition, renovation, or construction of major capital projects in this fund.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the Workers Comp Self Insurance Fund. This fund is aggregated in the government-wide Statement of Net Position and Statement of Changes in Net Position.

Fiduciary Funds:

Custodial Funds – The District accounts for resources held for others in a custodial capacity in custodial funds. The District's Custodial Fund is the Student Activity Fund.

E. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2022 that were subsequently provided for in the next year's budget for the General Fund.

F. Other Accounting Policies

1. **Cash Equivalents** - For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. **Inventories** – Inventories of supplies on the balance sheet are stated at FIFO cost and they include consumable maintenance, instructional, and office items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and initially recorded as an expense. Inventory and expenditures are adjusted periodically subsequent to inventory counts.
3. **Receivables and Payables** – All trade and property tax receivables are shown at face value. The property tax receivable allowance is shown at various rates based upon historical trends of outstanding property taxes receivable as of August 31, 2022.
4. **Long-term Debt** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Amounts recorded as long-term debt represent obligations that will be met by future revenue resources that are not available as of the current balance sheet date.

The District implemented **GASB 87** for reporting leases during this reporting period. A right-to-use asset is defined as a contract that conveys control of another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a long-term lease provided in **GASB 87** and must meet capitalization level set by the District. The right-to-use lease liability is calculated as the present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense. With **GASB 87**, the initial measure of a new right-to-use lease arrangement is reported in the governmental funds as other resources during the current period.

5. **Vacation and Sick Leave** – Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, no liability exists for unused sick leave.
6. **Capital Assets** - Capital assets, which include land, buildings, furniture & equipment and right-to-use lease assets are reported in the applicable governmental activities 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 two years. 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, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Classification</u>	<u>Useful Life</u>
Buildings	15-50 years
Building Improvements	15-50 years
Vehicles & Buses	5-10 years
Equipment	5-7 years

The District has no restriction on any capital assets.

7. **Due From/Due To Other Funds** – Interfund receivables and payables arise from interfund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations. See Note III-E for detailed discussion of interfund receivables and payables.

8. Net Position/Fund Balance:

Net position on the government-wide *Statement of Net Position* includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that are directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by bond covenants.

Restricted for Campus Activities is the component of net position that is restricted for campus activities.

Restricted for Scholarships is the component of net position that is restricted for scholarships.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities, and deferred inflows that is not invested in capital assets or restricted for specific purpose.

Net position represents the difference between assets plus deferred outflow of resources, and liabilities and deferred inflow of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislature adopted by the district or through external restrictions imposed by creditor, grantors, or laws or regulations of other governments. All other net positions are reported as unrestricted.

Fund balances on the governmental funds' *Balance Sheet* include the following:

Non-spendable fund balance is the portion of the gross fund balance that is not expendable because it is either not in spendable form or is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts restricted for a specific purpose by the provider (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects bond funds are restricted by the bondholders for the specific purpose of capital projects and capital outlays. Federal & State grant resources are restricted pursuant to the mandates of the granting agency.

Committed fund balance is that portion of fund balance that is committed to a specific purpose by the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by Board action. These amounts cannot be used for any other purpose unless the Board removes or changes the constraint by exercising the same type of action originally used to commit the funds.

Unassigned fund balance is the difference between the total fund balance and the total of the non-spendable, restrict, and committed fund balances and can be utilized for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

10. Total Columns on Combined Financial Statements – These total columns do not purport to present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

11. District's Policy as to Defining Operating & Non-operating Revenues of Proprietary Funds – Operating revenues are generally defined as those which originate through the ongoing activities of the fund. In contrast, non-operating revenues include, but are not limited to; capital expenditures, transfers, investing and financing activities.

12. Application of Restricted or Unrestricted Resources - When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, or unassigned fund balances are available, the District considers amounts to have been spent first from committed funds, then unassigned funds, as need, unless the Board of Trustees has provided otherwise it its commitment actions.

13. Grant Fund Accounting – The Special Revenue Fund includes programs that are financed on a project grant basis. These projects have grant periods that can range from less than twelve months to in excess of three years. Grants are recorded as revenues when earned, which the District considers to be earned to the extent expenditures have been incurred, the District has met all eligibility requirements, and funds are available.

14. Estimates and Assumptions – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

15. Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Certain deferred charges related to TRS pension and other post-employment benefits are reported as deferred outflows of resources on the government-wide statement of net position.

16. Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Certain deferred charges related to TRS pension and other post-employment benefits are reported as deferred inflows on the government-wide statement of net position.

II. STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

A. 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 in RSI and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, 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.
4. 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. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

A reconciliation of fund balances for both appropriated budget & nonappropriated budget special revenue funds is as follows:

Appropriated Budget Funds - Food Service	\$197,774
Nonappropriated Budget Funds-Campus Activity Funds	138,382
Nonappropriated Budget Funds-After School Care	10,995
Nonappropriated Budget Funds-Local Scholarship Funds	<u>22,017</u>
All Special Revenue Funds	<u><u>\$369,168</u></u>

III. DETAILED NOTES ON ALL FUNDS & ACCOUNT GROUPS

Note A. DEPOSITORY CONTRACT LAW

The funds of the District must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2022, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$1,827,356 and \$4,390,109 in Texpool investment accounts. At August 31, 2022 and during the year then ended, the District's combined deposits were fully insured by FDIC insurance or collateralized with securities held by the District's agent bank in the District's name, or by letters of credit.

Depository information required to be reported to the Texas Education Agency is as follows:

- a. Depository: Cendera Bank, Bells, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$1,827,356, and occurred during the month of August 2022.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$2,600,000.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$266,961.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the below hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset.

The District has the following recurring fair value measurements as of August 31, 2022:

Cash & Cash Equivalents of \$1,827,356 are valued using quoted market prices (Level 1 inputs).

Investments in Texpool accounts of \$4,390,109 are valued using quoted market prices (Level 1 inputs).

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

The **Public Funds Investment Act** (PFIA) (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, which 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 obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements, and certain other investments. The investments owned at fiscal year-end are held by the District or its agent in the District's name.

In compliance with the PFIA, the District has adopted a deposit and investment policy, which address the following risks:

Credit Risk is the risk that a security issuer may default on an interest or principal payment. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by nationally recognized agencies such as Standards and Poor's (S&P) or Moody's Investor Service.

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the District's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The District's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC coverage protected by approved pledged securities held on behalf of the District.

Concentration of Credit Risk is the risk associated with holding investments that are not pools and full faith credit securities. These risks are controlled by limiting the percentages of these investments in the District's portfolio.

Interest Rate Risk is the risk that interest rates will rise and an investment in a fixed-income security will decrease in value. Interest rate risk is reduced by diversifying, investing in securities with different durations, and laddering maturity dates. The District manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The District's policy does not allow for any direct foreign investments, and therefore the District is not exposed to foreign currency risk.

Note B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The assessed value of the roll as of the end of the fiscal year was \$348,864,195. The tax rates levied for the fiscal year ended August 31, 2022, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.9661 and \$0.3156 per \$100 valuation, respectively, for a total of \$1.2817 per \$100 valuation. Current year tax collections for the period ended August 31, 2022, were 100.14% of the levy and 99.63% in the prior year.

Note C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds 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 D. DUE FROM 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 Available School Fund.

Receivables due from other governments as of August 31, 2022 are as follows:

<u>Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$978,530	\$0	\$0	\$978,530
Debt Service Funds	0	0	0	0
Special Revenue Funds	0	48,285	0	48,285
Totals	\$978,530	\$48,285	\$0	\$1,026,815

Note E. INTERFUND TRANSACTIONS

Interfund balances at August 31, 2022, consisted of the following individual receivables & payables:

Due to Debt Service Fund from:

General Fund	\$4,667
Total Due to Debt Service Fund from Other Funds	\$4,667

Interfund transfers for the year ended August 31, 2022, consisted of the following individual amounts:

None

Note F. CAPITAL ASSETS & RIGHT-TO-USE LEASE ASSETS

A summary of changes in capital assets & right-to-use lease assets for the year ended August 31, 2022 is as follows:

	<u>Beginning</u>			<u>Ending Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Land	\$92,345	\$1,208,784	\$0	\$1,301,129
Buildings & Improvements	30,882,435	872,563	0	31,754,998
Equipment	1,042,192	725,800	0	1,767,992
Vehicles	1,330,485	41,940	0	1,372,425
Right-to-use Lease Assets-Equipment	45,398	0	0	45,398
Totals at Historical Cost	33,392,855	2,849,087	0	36,241,942
Less accumulated depreciation for:				
Buildings & Improvements	(11,453,569)	(861,085)	0	(12,314,654)
Equipment	(471,658)	(113,398)	0	(585,056)
Vehicles	(819,032)	(93,358)	0	(912,390)
Right-to-use Lease Assets-Equipment	0	(22,699)	0	(22,699)
Total accumulated depreciation	(12,744,259)	(1,090,540)	0	(13,834,799)
Capital Assets, Net	\$20,648,596	\$1,758,547	\$0	\$22,407,143

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$558,421
12 Instructional Resources & Media Services	19,944
13 Curriculum & Instructional Staff	19,944
23 School Leadership	49,859
31 Guidance, Counseling, & Evaluation Services	19,944
33 Health Services	9,972
34 Student (Pupil) Transportation	123,273
35 Food Services	49,859
36 Cocurricular/Extracurricular Activities	79,775
41 General Administration	29,915
51 Plant Maintenance & Operations	99,718
52 Security & Monitoring Services	9,972
53 Data Processing Services	19,944
Total Depreciation Expense	<u>\$1,090,540</u>

Note G. LONG-TERM DEBT

A summary of changes in long-term debt for the year ended August 31, 2022 is as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$15,070,000	\$0	(\$415,000)	\$14,655,000	\$435,000
Unamortized Bond Premiums	721,395	0	(40,162)	681,233	
Total Bonds Payable, Government-Wide	<u>\$15,791,395</u>	<u>\$0</u>	<u>(\$455,162)</u>	<u>\$15,336,233</u>	
Loans	398,000	1,348,904	(139,029)	1,607,875	242,435
Right-to-use Lease Liability	45,398	0	(22,399)	22,999	22,999
Total Governmental Activities	<u>\$16,234,793</u>	<u>\$1,348,904</u>	<u>(\$616,590)</u>	<u>\$16,967,107</u>	<u>\$700,434</u>

Bonds

The 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 the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2022.

A summary of changes in bonds for the year ended August 31, 2022 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning</u>			<u>Ending Amounts Outstanding 8/31/22</u>
				<u>Amounts Outstanding 9/01/21</u>	<u>Issued</u>	<u>Retired</u>	
Unlimited Tax Refunding Bonds- Series 2016	2.50-5.00%	\$8,390,000	\$227,100	\$7,310,000		(\$335,000)	\$6,975,000
Unlimited Tax Bldg Bonds- Series 2018	3.50-5.00%	7,975,000	288,338	7,760,000	0	(80,000)	7,680,000
Total General Obligation Bonds Unamortized Bond Premiums on CABs			\$515,438	\$15,070,000	\$0	(\$415,000)	\$14,655,000
				721,395	0	(40,162)	681,233
Total Bonds Payable, Government-Wide Financials				\$15,791,395	\$0	(\$455,162)	\$15,336,233

Debt service requirements for bonds are as follows:

<u>Year Ending August 31,</u>	<u>Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$435,000	\$494,688	\$929,688
2024	460,000	472,937	932,937
2025	480,000	449,938	929,938
2026	500,000	430,237	930,237
2027	520,000	409,738	929,738
2028-2032	2,675,000	1,829,387	4,504,387
2033-2037	2,960,000	1,438,213	4,398,213
2038-2042	2,795,000	964,100	3,759,100
2043-2047	3,135,000	458,325	3,593,325
2048-Maturity	695,000	24,325	719,325
Total Bonds	\$14,655,000	\$6,971,888	\$21,626,888

Loans

A summary of changes in loans for the year ended August 31, 2022 is as follows:

<u>Date of Issue/Maturity</u>	<u>Purpose/Lawful Authority</u>	<u>Fund Payable From/Interest Rate</u>	<u>Current Year Interest</u>	<u>Beginning Balance</u>	<u>Amount</u>		<u>Ending Balance</u>
					<u>Issued</u>	<u>Retired</u>	
08/15-08/25	Maintenance Tax Note, Series 2015	General/2.36%	\$9,234	\$492,000	\$0	(\$94,000)	\$398,000
09/21-09/26	Public Property Finance	General 5.08%	518	0	123,904	(43,029)	80,875
07/22-07/32	Maintenance Tax Note, Series 2012	General/3.02%	0	0	1,225,000	0	1,225,000
Totals			\$9,752	\$492,000	\$1,348,904	(\$137,029)	\$1,703,875

Debt service requirements for loans are as follows:

<u>Year Ending August 31,</u>	<u>Loans</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$242,435	\$50,903	\$293,338
2024	252,440	40,743	293,183
2025	217,000	32,932	249,932
2026	117,000	27,059	144,059
2027	120,000	23,526	143,526
2028-Maturity	659,000	60,883	719,883
Totals	<u>\$1,607,875</u>	<u>\$236,046</u>	<u>\$1,843,921</u>

Right-to-Use Lease Arrangements

On 9/30/2018, the District entered into a 60-month lease for District copy machines. The lease is payable in 60 equal monthly payments of \$1,950 per month. The present value of the leases at inception is \$108,308. The effective rate of interest was 3.18%.

A summary of the Right-to-Use Lease Arrangements for the year ended August 31, 2022 is as follows:

<u>Description</u>	<u>Discount Rate</u>	<u>Original Lease Liability</u>	<u>Beginning Amounts</u>		<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts</u>
			<u>Interest Current Year</u>	<u>9/01/21 Outstanding</u>			<u>8/31/22 Outstanding</u>
Lease for Copiers	3.18%	108,308	998	45,398	0	(22,399)	22,999
Total Right-to-Use Lease Liability			<u>\$998</u>	<u>\$45,398</u>	<u>\$0</u>	<u>(\$22,399)</u>	<u>\$22,999</u>

Debt service requirements for right-to use lease liabilities are as follows:

<u>Year Ending August 31,</u>	<u>Right-to-Use Lease Arrangements</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$22,999	\$398	\$23,397
2024	0	0	0
2025	0	0	0
2026	0	0	0
2027	0	0	0
2028-Maturity	0	0	0
Totals	<u>\$22,999</u>	<u>\$398</u>	<u>\$23,397</u>

Note H. DUE TO OTHER GOVERNMENTS

As of August 31, 2022, the District owed \$2,124 to Texas Education Agency for 2021-2022 existing debt allotment state revenue settle-up. The Texas Education Agency will deduct this amount from the District's 2022-2023 state revenues.

Note I. UNEARNED REVENUE & UNAVAILABLE REVENUE

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2022 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Property Tax Revenue	\$15,365	\$0	\$5,019	\$20,384
Total Unearned Revenue	\$15,365	\$0	\$5,019	\$20,384
Unavailable Revenue:				
Property Tax Revenue	\$129,349	\$0	\$38,706	\$168,055
Total Unavailable Revenue	\$129,349	\$0	\$38,706	\$168,055

Note J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Property Taxes	\$3,376,384	\$0	\$1,101,307	\$0	\$4,477,691
Penalties, Interest, & Other Tax					
Related Income	44,820	0	12,228	0	57,048
Investment Income	18,919	88	9,418	2,265	30,690
Tuition	17,000	25,569	0	0	42,569
Gifts & Bequests	11,100	500	0	0	11,600
Food Service Sales	0	73,601	0	0	73,601
Athletics	50,252	0	0	0	50,252
Co-curricular	0	264,754	0	0	264,754
Other	49,726	0	0	0	49,726
Totals	\$3,568,201	\$364,512	\$1,122,953	\$2,265	\$5,057,931

Note K. RISK MANAGEMENT

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

Health Care Coverage

The District offers all employees health care coverage under the TRS Active Care insurance plan, which is a statewide health coverage program for public education employees established by the 77th Texas Legislature. The District contributed \$300 per month per enrolled employee to the Plan, and employees, at their option, authorized payroll withholdings to pay the additional cost of premiums for themselves and dependents.

CAS Workers Compensation Coverage

The District was self-funded for workers compensation insurance and has an interlocal agreement with Claims Administration Services, Inc. (CAS) to serve as the District's third-party administrator. Transactions related to the plan are accounted for in the Workers Compensation Self Insurance Fund, an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. and School Comp obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2022, to \$350,000 for any individual participant. At August 31, 2022, the District's unpaid claims totaled \$42,731, which includes incurred but not reported claims. The liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information obtained prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not

necessarily result in an exact amount. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2021</u>	<u>Year Ended August 31, 2022</u>
Unpaid claims, beginning of fiscal year	\$44,232	\$52,821
Incurred claims (including IBNR's)	12,433	0
Claim payments	(3,844)	(10,090)
Unpaid claims, end of fiscal year	<u>\$52,821</u>	<u>\$42,731</u>

TASB Workers Compensation Coverage

During the year ended August 31, 2022, Bells ISD met its statutory workers compensation obligations through participation in the TASB Risk Management 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 cost 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, 2021, the Fund carries a discounted reserve of \$44,985,187 for future development on reported claims and claims that have been incurred but not reported. For the year-ended August 31, 2022, 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.

TASB Auto, Liability, & Property Programs

During the year ended August 31, 2022, Bells ISD participated in the following Risk Management Fund Programs:

Auto Liability, Auto Physical Damage, Privacy & Information Security, Property, and School Liability

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability, and Property programs. The terms and limits of stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2022, the Fund anticipates that Bells ISD has no additional liability beyond the contractual obligations for payment of contributions.

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

Litigation and Contingencies

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 any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

State and Federal 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 adjustments by the grantor agencies.

Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2022 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note L. DEFINED BENEFIT PENSION PLAN

Plan Description. Bells Independent School District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Board of Trustees of the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution.

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 Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS provides retirement, disability, and death benefits. Membership in the plan includes 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 exempt from membership under Texas Government Code, Title 8, Section 822.002. The pension benefits are established or amended under the authority of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The Board of Trustees does not have the authority to establish or amend benefits.

State law requires the plan to be actuarially sound in order for the Legislature to consider a benefit enhancement, such as supplemental payment to the retirees. The pension became actuarially sound in May 2019 when the 86th Texas Legislature approved the TRS Pension Reform Bill (SB12) that provided gradual contribution increases from the state, participating employers, and active employees for the fiscal years 2019 through 2024.

Contributions. Contribution requirements are established or amended pursuant to the following state laws:

- Article 16, Section 67 of the Texas Constitution requires the Texas Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the System during the fiscal year.
- Texas Government Code Section 821.006 prohibits benefit improvements if it increases the amortization period of TRS' unfunded actuarial liability to greater than 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 this manner are determined by the System's actuary.

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 plan during the fiscal year reduced by the employer contributions. Employers (including public schools) are required to pay the employer contribution rate in the following instances:

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

In addition to the employer contributions listed above, employers are required to pay surcharges in the following cases:

- All public schools, charter schools and regional education service centers must contribute 1.6 percent of the member's salary beginning in fiscal year 2021, gradually increasing to 2 percent in fiscal year 2025. The surcharge for fiscal year 2022 is 1.7 percent.
- When employing a retiree of the Teacher Retirement System the employer shall pay an amount equal to the member contribution and the state contribution as an employment after retirement surcharge.

The following table shows contribution rates by type of contributor for the fiscal years 2021 and 2022.

	<u>2021</u>	<u>2022</u>
Member	7.7%	8.00%
Non-Employer Contributing Entity	7.5%	7.75%
Employers	7.5%	7.50%
District's 2022 FY Employer Contributions	\$ 238,843	
District's 2022 FY Member Contributions	\$ 494,774	
Measurement Year NECE On-Behalf Cont.	\$ 348,007	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

Net Pension Liability

Components of the net pension liability of the plan as of August 31, 2021 are disclosed below: (From TRS Annual Comprehensive Financial Report 2021, p. 86.)

Table 11.E.1: Net Pension Liability	
Components of Liability	Amount
Total Pension Liability	\$ 227,273,463,630
Less: Plan Fiduciary Net Position	(201,807,002,496)
Net Pension Liability	\$ 25,466,461,134
Net Position as Percentage of Total Pension Liability	88.79 %

Actuarial Assumptions.

Roll Forward - The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the total pension liability to August 31, 2021.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018.

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

The long-term expected rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate 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.

The following table discloses the assumptions that were applied to this measurement period. (From TRS Annual Comprehensive Financial Report 2021, p. 87.)

Table 11.F.1: Actuarial Methods and Assumptions

Component	Result
Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 2020	1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally 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)	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

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

Discount Rate. A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 legislative 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2021, are presented in the following table from the TRS Annual Comprehensive Financial Report for 2021, p. 53.

Table 3.A.1: Asset Allocations

Asset Class*	Target Allocation %**	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0 %	3.6 %	0.94 %
Non-US Developed	13.0	4.4	0.83
Emerging Markets	9.0	4.6	0.74
Private Equity	14.0	6.3	1.36
Stable Value			
Government Bonds	16.0 %	(0.2)%	0.01 %
Absolute Return	0.0	1.1	0.00
Stable Value Hedge Funds	5.0	2.2	0.12
Real Return			
Real Estate	15.0 %	4.5 %	1.00 %
Energy, Natural Resources & Infrastructure	6.0	4.7	0.35
Commodities	0.0	1.7	0.00
Risk Parity			
Asset Allocation Leverage			
Cash	2.0 %	(0.7)%	(0.01) %
Asset Allocation Leverage	(6.0)	(0.5)	0.03
Inflation Expectation			2.20 %
Volatility Drag****			(0.95) %
Expected Return	100.0 %		6.90 %
*Absolute Return includes Credit Sensitive Investments.			
**Target allocations are based on the FY2021 policy model.			
***Capital Market Assumptions come from Aon Hewitt (as of 8/31/2021).			
****The volatility drag results from the conversion between arithmetic and geometric mean returns.			

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

	1% Decrease in Discount Rate (6.25%)	Current Single Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability:	\$ 2,307,205	\$ 1,055,852	\$ 40,626

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2022, Bells Independent School District reported a liability of \$1,055,852 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Bells Independent School District. The amount recognized by Bells Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Bells Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 1,055,852
State's proportionate share that is associated with the District	<u>2,076,757</u>
Total	<u>\$3,132,609</u>

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

At August 31, 2021 the employer's proportion of the collective net pension liability was .000041460511% compared to .000036620213% as of August 31, 2020.

Changes In Actuarial Assumptions Since the Prior Actuarial Valuation – There were no changes in assumptions since the prior measurement date.

Changes in Benefits - There were no changes in benefits.

For the year ended August 31, 2022, Bells Independent School District recognized pension expense of \$8,303 and revenue of \$8,303 for support provided by the State in the Government Wide Statement of Activities

At August 31, 2022, Bells Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 1,767	\$ 74,333
Changes in actuarial assumptions	373,223	162,693
Net Difference between projected and actual investment earnings	0	885,319
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	300,407	80,003
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	238,843	
Total	\$ 914,240	\$ 1,202,348

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized by the district in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2023	\$ (78,167)
2024	(86,822)
2025	(158,301)
2026	(236,914)
2027	24,233
Thereafter	9,020

Note M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The Bells 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 plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the 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.

OPEB Plan Fiduciary Net Position. Detailed 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>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2021 as presented in the TRS 2021 ACFR (p. 76) are as follows:

Table 9.E.1: Net OPEB Liability	
Components of Liability	Amount
Total OPEB Liability	\$ 41,113,711,083
Less: Plan Fiduciary Net Position	(2,539,242,470)
Net OPEB Liability	\$ 38,574,468,613
Net Position as a Percentage of Total OPEB Liability	6.18 %

Benefits Provided. TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension system. Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. 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.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th Legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures. This amount is estimated at \$271,311,000 as of August 31, 2021. The premium rates for retirees are presented in the following table:

TRS-Care Monthly Premium Rates

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

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

At the inception of the plan, funding was projected to last 10 years through fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000. Since that time, appropriations and contributions have been established to fund the benefits for each successive biennium.

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of salary. Section 1575.204 establishes a public-school contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee's pay for fiscal year 2021. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>2021</u>	<u>2022</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%
District's 2022 FY Employer Contributions		\$ 74,106
District's 2022 FY Member Contributions		\$ 40,201
Measurement Year NECE On-Behalf Contributions		\$ 85,529

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

A supplemental appropriation was authorized by Senate Bill 1264 of the 86th Texas Legislature to provide \$2,208,137 for fiscal year 2020 and \$3,312,206 for fiscal year 2021, for consumer protections against medical and health care billing by certain out-of-network providers. Funding was in fiscal year 2021.

Actuarial Assumptions. The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the total OPEB liability to August 31, 2021.

In addition to the demographic assumptions: salary increases and inflation rates used for members of TRS are identical to the assumptions employed in the August 31, 2021 annual pension actuarial valuation.

The rates of mortality, retirement, termination, and disability incidence are identical to the assumptions used to value the pension liability of the Teacher Retirement System of Texas (TRS). The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

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. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018.

Election Rates for Normal retirement - 65 percent participation rate prior to age 65 and 40 percent participation rate after age 65. Election Rates for pre-65 Retirees - 25 percent are assumed to discontinue coverage at age 65.

Table 9.F.1: Actuarial Methods and Assumptions	
Component	Result
Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30 %
Single Discount Rate	1.95 % as of August 31, 2021
Aging Factors	Based on plan specific experience
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

The initial medical trend rates were 8.50 percent for Medicare retirees and 7.10 percent for non-Medicare retirees. There was an initial prescription drug trend rate of 8.50 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 12 years.

Discount Rate. A single discount rate of 1.95 percent was used to measure the total OPEB liability. This was a decrease of .38 percent in the discount rate since the previous year. The Discount Rate can be found in the 2021 TRS ACFR on page 77. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (1.95%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (.95%)	Current Single Discount Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District's proportionate share of the Net OPEB Liability:	\$ 3,802,176	\$ 3,152,114	\$ 2,640,494

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 2,553,108	\$ 3,152,114	\$ 3,955,831

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2022, Bells Independent School District reported a liability of \$3,152,114 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 Bells Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 3,152,114
State's proportionate share that is associated with the District	<u>4,223,130</u>
Total	<u>\$7,375,244</u>

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

At August 31, 2021 the employer's proportion of the collective net OPEB liability was .000081715034% compared to .000073439301% as of August 31, 2020.

Changes in Actuarial Assumptions Since the Prior Actuarial Valuation – The discount rate changed from 2.33 percent as of August 31, 2020 to 1.95 percent as of August 31, 2021. This change increased the total OPEB liability.

Changes in Benefit Terms: There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2022, Bells Independent School District recognized OPEB expense of \$(155,866) and revenue of \$(155,866) for support provided by the State.

At August 31, 2022, Bells Independent School 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 actuarial experience	\$ 135,713	\$ 1,525,844
Changes in actuarial assumptions	349,134	666,614
Net Difference between projected and actual investment earnings	3,422	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,347,490	0
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	74,106	
Total	\$1,909,865	\$ 2,192,458

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized by the district in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2023	\$ (133,449)
2024	(133,526)
2025	(133,507)
2026	(50,534)
2027	61,797
Thereafter	32,521

Note N. MEDICARE PART D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. State Contributions for Medicare Part D made on behalf of Bells Independent School District's employees were \$26,108, \$25,556, and \$24,384, respectively for fiscal years ended August 31, 2022, 2021, and 2020.

Note O. JOINT VENTURES – SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education Services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Bells Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Note P. SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through January 9, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

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BELLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,426,877	\$ 3,569,907	\$ 3,568,201	\$ (1,706)
5800 State Program Revenues	7,005,330	7,603,462	7,604,090	628
5020 Total Revenues	10,432,207	11,173,369	11,172,291	(1,078)
EXPENDITURES:				
Current:				
0011 Instruction	5,715,728	5,813,715	5,541,232	272,483
0012 Instructional Resources and Media Services	237,344	223,264	149,496	73,768
0013 Curriculum and Instructional Staff Development	170,573	182,773	170,843	11,930
0023 School Leadership	583,147	579,547	567,150	12,397
0031 Guidance, Counseling, and Evaluation Services	256,192	252,692	240,168	12,524
0033 Health Services	153,793	152,093	134,373	17,720
0034 Student (Pupil) Transportation	371,773	324,177	304,492	19,685
0036 Extracurricular Activities	567,785	631,911	623,646	8,265
0041 General Administration	349,341	348,041	318,019	30,022
0051 Facilities Maintenance and Operations	1,148,018	1,128,618	1,084,377	44,241
0052 Security and Monitoring Services	140,121	137,421	135,990	1,431
0053 Data Processing Services	200,152	198,952	180,520	18,432
Debt Service:				
0071 Principal on Long-Term Liabilities	161,201	161,613	161,429	184
0072 Interest on Long-Term Liabilities	11,039	11,027	10,750	277
Capital Outlay:				
0081 Facilities Acquisition and Construction	450,000	2,083,784	2,024,537	59,247
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	279,000	279,000	278,941	59
0099 Other Intergovernmental Charges	87,000	87,000	83,963	3,037
6030 Total Expenditures	10,882,207	12,595,628	12,009,926	585,702
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(450,000)	(1,422,259)	(837,635)	584,624
OTHER FINANCING SOURCES (USES):				
7914 Non-Current Loans	-	123,904	123,904	-
1200 Net Change in Fund Balances	(450,000)	(1,298,355)	(713,731)	584,624
0100 Fund Balance - September 1 (Beginning)	4,805,177	4,805,177	4,805,177	-
3000 Fund Balance - August 31 (Ending)	\$ 4,355,177	\$ 3,506,822	\$ 4,091,446	\$ 584,624

BELLS 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, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Pension Liability (Asset)	0.000041461%	0.00003662%	0.000038822%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,055,852	\$ 1,961,304	\$ 2,018,094
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	2,076,757	4,628,726	4,212,205
Total	<u>\$ 3,132,609</u>	<u>\$ 6,590,030</u>	<u>\$ 6,230,299</u>
District's Covered Payroll	\$ 5,739,811	\$ 5,676,707	\$ 5,269,453
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	18.40%	34.55%	38.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.79%	75.54%	75.24%

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

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

FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
0.000034962%	0.000033041%	0.00003463%	0.000034739%	0.000021552%
\$ 1,924,375	\$ 1,056,462	\$ 1,308,601	\$ 1,227,977	575,684
4,569,654	2,740,548	3,269,375	3,137,220	2,766,492
<u>\$ 6,494,029</u>	<u>\$ 3,797,010</u>	<u>\$ 4,577,976</u>	<u>\$ 4,365,197</u>	<u>\$ 3,342,176</u>
\$ 4,944,500	\$ 4,770,432	\$ 4,679,395	\$ 4,461,131	4,420,833
38.92%	22.15%	27.97%	27.53%	13.02%
73.74%	82.17%	78.00%	78.43%	83.25%

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

	2022	2021	2020
Contractually Required Contribution	\$ 238,843	\$ 175,551	\$ 151,116
Contribution in Relation to the Contractually Required Contribution	238,843	175,551	151,116
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 6,184,684	\$ 5,739,811	\$ 5,676,707
Contributions as a Percentage of Covered Payroll	3.86%	3.06%	2.66%

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

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

	2019	2018	2017	2016	2015
\$	135,803	\$ 116,932	\$ 135,617	\$ 137,133	\$ 128,601
	135,803	116,932	135,617	137,133	128,601
\$	-	\$ -	\$ -	\$ -	\$ -
\$	5,269,453	\$ 4,944,500	\$ 4,770,432	\$ 4,679,395	\$ 4,461,131
	2.58%	2.36%	2.84%	2.93%	2.88%

BELLS 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, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.000081715%	0.000073439%	0.000065032%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 3,152,114	\$ 2,791,759	\$ 3,075,462
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	4,223,130	3,751,456	4,086,601
Total	<u>\$ 7,375,244</u>	<u>\$ 6,543,215</u>	<u>\$ 7,162,063</u>
District's Covered Payroll	\$ 5,739,811	\$ 5,676,707	\$ 5,269,453
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	54.92%	49.18%	58.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.18%	4.99%	2.66%

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

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

<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>
0.000057577%	0.000052566%
\$ 2,874,880	\$ 2,285,888
4,369,019	3,877,584
<u>\$ 7,243,899</u>	<u>\$ 6,163,472</u>
\$ 4,944,500	\$ 4,770,432
58.14%	47.92%
1.57%	0.91%

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

	2022	2021	2020
Contractually Required Contribution	\$ 74,106	\$ 63,282	\$ 55,792
Contribution in Relation to the Contractually Required Contribution	74,106	63,282	55,792
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 6,184,684	\$ 5,739,811	\$ 5,676,707
Contributions as a Percentage of Covered Payroll	1.20%	1.10%	0.98%

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.

	2019	2018
\$	46,155	\$ 38,650
	46,155	38,650
\$	-	\$ -
\$	5,269,453	\$ 4,944,500
	0.88%	0.78%

BELLS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2022

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms.

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

Changes of Assumptions.

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

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefits.

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

Changes in Assumptions.

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

OTHER SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS

BELLS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2022

Data Control Codes	211 ESSA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
ASSETS			
1110 Cash and Cash Equivalents	\$ (9,384)	\$ 194,530	\$ (6,208)
1120 Investments - Current	-	-	-
1240 Due from Other Governments	9,384	23,657	6,208
1000 Total Assets	<u>\$ -</u>	<u>\$ 218,187</u>	<u>\$ -</u>
LIABILITIES			
2160 Accrued Wages Payable	\$ -	\$ 19,978	\$ -
2200 Accrued Expenditures	-	435	-
2000 Total Liabilities	<u>-</u>	<u>20,413</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	197,774	-
3490 Other Restricted Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>197,774</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 218,187</u>	<u>\$ -</u>

255 ESSA II, A Training and Recruiting	281 ESSER II Emergency Relief Grant	282 ESSER III Emergency Relief Grant	289 ESSA Title IV School Health Support Grant	397 Advanced Placement Incentives	410 Instructional Materials Allotment	461 Campus Activity Funds	498 After School Care
\$ -	\$ (7,486)	\$ 8,098	\$ (1,550)	\$ -	\$ -	\$ 138,382	\$ 10,995
-	-	-	-	-	-	-	-
-	7,486	-	1,550	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,382</u>	<u>\$ 10,995</u>
\$ -	\$ -	\$ 7,273	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	825	-	-	-	-	-
-	-	8,098	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	138,382	10,995
-	-	-	-	-	-	138,382	10,995
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,382</u>	<u>\$ 10,995</u>

BELLS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2022

Data Control Codes	499 Local Scholarship Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 8,849	\$ 336,226
1120 Investments - Current	13,168	13,168
1240 Due from Other Governments	-	48,285
1000 Total Assets	<u>\$ 22,017</u>	<u>\$ 397,679</u>
LIABILITIES		
2160 Accrued Wages Payable	\$ -	\$ 27,251
2200 Accrued Expenditures	-	1,260
2000 Total Liabilities	<u>-</u>	<u>28,511</u>
FUND BALANCES		
Restricted Fund Balance:		
3450 Federal or State Funds Grant Restriction	-	197,774
3490 Other Restricted Fund Balance	22,017	171,394
3000 Total Fund Balances	<u>22,017</u>	<u>369,168</u>
4000 Total Liabilities and Fund Balances	<u>\$ 22,017</u>	<u>\$ 397,679</u>

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BELLS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	211 ESSA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ 73,601	\$ -
5800 State Program Revenues	-	16,669	-
5900 Federal Program Revenues	70,098	641,327	58,974
5020 Total Revenues	<u>70,098</u>	<u>731,597</u>	<u>58,974</u>
EXPENDITURES:			
Current:			
0011 Instruction	70,098	-	58,974
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-
0031 Guidance, Counseling, and Evaluation Services	-	-	-
0034 Student (Pupil) Transportation	-	-	-
0035 Food Services	-	596,052	-
0036 Extracurricular Activities	-	-	-
0051 Facilities Maintenance and Operations	-	-	-
0061 Community Services	-	-	-
6030 Total Expenditures	<u>70,098</u>	<u>596,052</u>	<u>58,974</u>
1200 Net Change in Fund Balance	-	135,545	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>62,229</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 197,774</u>	<u>\$ -</u>

255 ESSA II, A Training and Recruiting	281 ESSER II Emergency Relief Grant	282 ESSER III Emergency Relief Grant	289 ESSA Title IV School Health Support Grant	397 Advanced Placement Incentives	410 Instructional Materials Allotment	461 Campus Activity Funds	498 After School Care
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,754	\$ 25,569
-	-	-	-	73	59,963	-	1,308
19,322	270,791	376,715	40,924	-	-	-	-
19,322	270,791	376,715	40,924	73	59,963	264,754	26,877
-	190,103	372,070	-	-	59,963	-	-
-	80,688	-	-	-	-	-	-
19,322	-	-	7,445	-	-	-	-
-	-	-	-	73	-	-	-
-	-	4,645	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	252,567	-
-	-	-	33,479	-	-	-	-
-	-	-	-	-	-	-	21,618
19,322	270,791	376,715	40,924	73	59,963	252,567	21,618
-	-	-	-	-	-	12,187	5,259
-	-	-	-	-	-	126,195	5,736
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,382	\$ 10,995

BELLS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	499 Local Scholarship Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 588	\$ 364,512
5800 State Program Revenues	-	78,013
5900 Federal Program Revenues	-	1,478,151
5020 Total Revenues	<u>588</u>	<u>1,920,676</u>
EXPENDITURES:		
Current:		
0011 Instruction	-	751,208
0012 Instructional Resources and Media Services	-	80,688
0013 Curriculum and Instructional Staff Development	-	26,767
0031 Guidance, Counseling, and Evaluation Services	-	73
0034 Student (Pupil) Transportation	-	4,645
0035 Food Services	-	596,052
0036 Extracurricular Activities	1,300	253,867
0051 Facilities Maintenance and Operations	-	33,479
0061 Community Services	-	21,618
6030 Total Expenditures	<u>1,300</u>	<u>1,768,397</u>
1200 Net Change in Fund Balance	(712)	152,279
0100 Fund Balance - September 1 (Beginning)	<u>22,729</u>	<u>216,889</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 22,017</u>	<u>\$ 369,168</u>

OTHER SUPPLEMENTARY INFORMATION
REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

BELLS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2022

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2013 and prior years	\$ 1.170000	\$ 0.310000	\$ 182,607,691
2014	1.170000	0.310000	181,269,972
2015	1.170000	0.310000	187,480,112
2016	1.170000	0.310000	195,800,445
2017	1.170000	0.310000	206,746,719
2018	1.170000	0.310000	223,542,625
2019	1.170000	0.335000	245,559,400
2020	1.068350	0.315600	299,109,208
2021	1.024200	0.315600	319,075,828
2022 (School year under audit)	0.966100	0.315600	348,864,195
1000 TOTALS			

(10) Beginning Balance 9/1/2021	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2022
\$ 19,334	\$ -	\$ 249	\$ 66	\$ (1,389)	\$ 17,630
3,337	-	330	87	(125)	2,795
6,244	-	330	87	(125)	5,702
5,146	-	395	105	(124)	4,522
8,132	-	1,218	323	(124)	6,467
11,587	-	1,408	373	(125)	9,681
18,234	-	2,899	830	(162)	14,343
40,282	-	16,065	4,746	(2,735)	16,736
107,141	-	43,625	13,443	(16,345)	33,728
-	4,471,392	3,309,865	1,081,247	-	80,280
<u>\$ 219,437</u>	<u>\$ 4,471,392</u>	<u>\$ 3,376,384</u>	<u>\$ 1,101,307</u>	<u>\$ (21,254)</u>	<u>\$ 191,884</u>

BELLS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 92,150	\$ 76,936	\$ 73,601	\$ (3,335)
5800 State Program Revenues	16,392	17,156	16,669	(487)
5900 Federal Program Revenues	377,000	663,496	641,327	(22,169)
5020 Total Revenues	485,542	757,588	731,597	(25,991)
EXPENDITURES:				
Current:				
0035 Food Services	483,542	600,357	596,052	4,305
6030 Total Expenditures	483,542	600,357	596,052	4,305
1200 Net Change in Fund Balances	2,000	157,231	135,545	(21,686)
0100 Fund Balance - September 1 (Beginning)	62,229	62,229	62,229	-
3000 Fund Balance - August 31 (Ending)	\$ 64,229	\$ 219,460	\$ 197,774	\$ (21,686)

BELLS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,008,564	\$ 1,122,954	\$ 1,122,953	\$ (1)
5800 State Program Revenues	-	-	10,545	10,545
5020 Total Revenues	1,008,564	1,122,954	1,133,498	10,544
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	415,000	415,000	415,000	-
0072 Interest on Long-Term Liabilities	515,438	515,438	515,438	-
0073 Bond Issuance Cost and Fees	5,000	5,000	3,500	1,500
6030 Total Expenditures	935,438	935,438	933,938	1,500
1200 Net Change in Fund Balances	73,126	187,516	199,560	12,044
0100 Fund Balance - September 1 (Beginning)	898,633	898,633	898,633	-
3000 Fund Balance - August 31 (Ending)	\$ 971,759	\$ 1,086,149	\$ 1,098,193	\$ 12,044

BELLS INDEPENDENT SCHOOL DISTRICT
STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2022

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	485,023
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	589,720

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.	10,643
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35)	11,938

FEDERAL AWARDS SECTION

Morgan, Davis, & Company, P.C.
Post Office Box 8158
Greenville, Texas 75404

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Bells Independent School District
1550 Ole Ambrose Road
Bells, Texas 75414

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 Bells Independent School District, as of and for the year ended August 31, 2022 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 9, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.

Report on 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.

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis, & Company, P.C.
Greenville, Texas
January 9, 2023

Morgan, Davis & Company, P.C.
Post Office Box 8158
Greenville, Texas 75404

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

Independent Auditor's Report

Bells Independent School District
1550 Ole Ambrose Road
Bells, Texas 75414

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Bells Independent School District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bells Independent School District's major federal programs for the year ended August 31, 2022. Bells Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Bells 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAS); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibility under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Governmental Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during or audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bells Independent School District as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise Bells Independent School District's basic financial statements. We issued our report thereon, dated January 9, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis & Company, P.C.
Greenville, Texas
January 9, 2023

BELLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2022

Summary of Auditor's Results:

The type of report we issued on whether the financial statements of Bells Independent School District were prepared in accordance with GAAP as an unmodified opinion.

With respect to internal control over financial reporting, we identified no material weaknesses and we reported no significant deficiencies.

We noted no noncompliance material to the financial statements,

With respect to internal control over major federal programs, we identified no material weaknesses and we reported no significant deficiencies.

The type of report we issued on compliance for major programs was an unmodified opinion.

We disclosed no audit findings which the auditor is required to report in accordance with 2 CFR 200.516(a).

We identified the following major programs:

COVID-19 Elementary & Secondary School Emergency Relief Funds (ESSER), Assistance Listing #84.425

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

The auditee does not qualify as a low-risk auditee.

Financial Statements Findings:

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

Federal Award Findings and Questioned Costs:

There are no findings or questioned costs related to federal awards which are required to be reported by 2 CFR 200.516(a).

BELLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2022

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

BELLS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2022

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2022.

BELLS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2022

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Texas Education Agency</u>			
ESSA, Title I, Part A - Improving Basic Programs	84.010A	20610101057950	\$ 9
ESSA, Title I, Part A - Improving Basic Programs	84.010A	22610101057950	70,089
Total Assistance Listing Number 84.010			70,098
Carl Perkins - Jobs & Education for Texans	84.048	91010908	58,974
ESSA, Title II, Part A, Teacher Principal Training	84.367A	20694501057950	257
ESSA, Title II, Part A, Teacher Principal Training	84.367A	22694501057950	19,065
Total Assistance Listing Number 84.367			19,322
ESSA, Title IV, Part A	84.424A	22680101057950	7,445
COVID-19 - ESSER II - CRRSA Grant	84.425D	21521001091901	270,791
COVID-19 - ESSER III - ARP Grant	84.425D	21528001091901	376,715
Total Assistance Listing Number 84.425			647,506
Total Passed Through Texas Education Agency			803,345
TOTAL U.S. DEPARTMENT OF EDUCATION			803,345
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Health and Human Services Commission</u>			
ELC Reopening Schools - School Health	93.323	N/A	33,479
Total Passed Through Texas Health and Human Services Commission			33,479
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			33,479
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the Texas Department of Agriculture</u>			
*School Breakfast Program	10.553	71402201	142,580
*National School Lunch Program - Cash Assistance	10.555	71302201	399,874
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	36,824
*Supply Chain Assistance Grant	10.555	N/A	27,897
Total Assistance Listing Number 10.555			464,595
*NSLP Equipment Assistance Grant	10.559	N/A	34,152
Total Child Nutrition Cluster			641,327
Total Passed Through the Texas Department of Agriculture			641,327
TOTAL U.S. DEPARTMENT OF AGRICULTURE			641,327
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,478,151
*Clustered Programs			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

BELLS INDEPENDENT SCHOOL DISTRICT
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2022

1. For all federal programs, the District uses the fund types specified in Texas Education Agency’s *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally 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. All Federal grant funds were accounted for in a Special Revenue Fund or, in some instances, in the General Fund which are Governmental Fund type funds. 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. 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 unearned revenues until earned.
3. The District must submit to the pass-through entity no later than 90 calendar days (or an earlier date as agreed upon by the pass-through entity and the District) after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extension when requested and justified by the non-Federal entity, as applicable (2 CFR 200.344(a)). Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all financial obligations incurred under the Federal award no later than 120 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award. (2 CFR 200.344(b)).
4. Indirect cost reimbursement for federal programs for this fiscal year was received in the amount of \$0.
5. Assistance Listing numbers for commodity assistance are the Assistance Listing numbers of the programs under which USDA donated the commodities.
6. Reconciliation Information:

Amount reported on the Schedule of Expenditures of Federal awards	\$1,478,151
Federal Program Revenue Reported on Exhibit C-3	\$ 1,478,151

SCHOOLS FIRST QUESTIONNAIRE

Bells Independent School District

Fiscal Year 2022

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

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

History and Purpose

The PSF supports the State's public school system in two major ways: distributions to the constitutionally established Available School Fund (the "ASF"), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be "permanent," and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Education Commissioner. On approval by the Education Commissioner,

bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program became effective on March 3, 2014. See “The Charter District Bond Guarantee Program.”

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The SLB’s land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2022, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the 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, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2022 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See “Management Transition to the PSF Corporation” for a discussion of the PSF Corporation audit. At its November 2022 quarterly board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the “Regulatory Recodification”) was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

The following discussion describes some legal and management aspects of the structure of the Fund prior to full implementation of SB 1232. SB 1232 is being implemented in phases. See “Management Transition to the PSF Corporation” for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 as well as certain prior actions and the ongoing changes in the management structure of the Fund.

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF’s financial assets, but SB 1232 authorized the SBOE to delegate management of the Fund to the Corporation, which, as noted above, has been done. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office.

The Texas Constitution provides that the Fund shall be managed through the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the “Prudent Person Standard”).

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

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

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

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

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

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

Management Transition to the PSF Corporation

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

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally occurring in calendar year 2023. As noted above, on January 1, 2023 the investment management responsibilities for the Fund transferred to the PSF Corporation and the merger of Fund assets previously managed by the SLB with those previously managed by the SBOE.

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

At the inaugural meeting of the PSFC Board in January 2022, the PSFC Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation and in April 2022 the Executive Administrator of the Fund was confirmed as the chief executive officer of the PSF Corporation. The PSFC Board adopted bylaws governing how it will manage its affairs and conduct business. The chief executive officer reports to the PSFC Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the PSFC Board but are subject to approval by the SBOE. At its March 2023 meeting, the PSFC Board approved its securities lending policy.

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

The SLB's investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB is no longer authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and individual real estate holdings; the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals.

Not less than once each year, the PSFC Board must submit an audit report to the Legislative Budget Board ("LBB") regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with other State laws. The first audit of the PSF Corporation will be conducted following the close of the 2022-2023 fiscal year on August 31, 2023.

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

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

The Total Return Constitutional Amendment

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

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." The definition of intergenerational equity that the SBOE has generally followed is the

maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon PSF Corporation and TEA staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

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

Asset Allocation of Fund Portfolios

With respect to the management of the Fund’s financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE historically reviewed the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in June 2022. The IPS (effective January 1, 2023) provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income, and alternatives. The alternatives category includes absolute return, private equity, real estate, emerging manager program, real return, natural resources, and infrastructure components. Alternative asset classes diversify the managed assets of the PSF and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of traditional investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

PSF 2022 Strategic Asset Allocations

	<u>PSF(SBOE)</u>	<u>PSF(SLB)</u>	<u>Liquid Account</u>
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
Private Equity	18%	0%	0%
Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging Markets Debt	3%	0%	0%
Treasuries	3%	0%	0%
TIPS	0%	0%	5%
Short Duration	0%	0%	0%
Alternative Investments Total	22%	100%	0%

Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
Emerging Manager Program	1%	0%	0%
Cash	0%	0%	2%

PSF Corporation 2023 Strategic Asset Allocation

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

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

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

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

Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%
Private Real Assets – Natural Resources	3%	+/- 2.0%
Private Real Assets - Infrastructure	4%	+/- 2.0%
<i>Total Alternatives</i>	45%	

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

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2021 and 2022, as set forth in the PSF Annual Reports for those years. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined for investment management and accounting purposes.

Comparative Investment Schedule - PSF(SBOE)¹

Fair Value (in millions) August 31, 2022 and 2021				
ASSET CLASS	August 31, 2022	August 31, 2021	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,358.4	\$ 2,597.3	\$ (238.9)	-9.2%
Domestic Large Cap	<u>4,730.4</u>	<u>6,218.7</u>	<u>(1,488.3)</u>	<u>-23.9%</u>
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%
International Equity	<u>5,972.5</u>	<u>8,062.1</u>	<u>(2,089.6)</u>	<u>-25.9%</u>
TOTAL EQUITY	13,061.3	16,878.1	(3,816.8)	-22.6%
FIXED INCOME				
Domestic Fixed Income	4,563.3	4,853.1	(289.8)	-6.0%
U.S. Treasuries	1,140.2	1,243.3	(103.1)	-8.3%
High Yield Bonds	1,142.5	-	<u>1,142.5</u>	<u>N/A</u>
Emerging Market				
Debt	<u>1,142.5</u>	<u>2,683.7</u>	<u>(1,492.8)</u>	<u>-55.6%</u>
TOTAL FIXED INCOME	8,036.9	8,780.1	(743.2)	-8.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	2,932.3	3,546.0	(613.7)	-17.3%
Real Estate	4,365.7	3,706.0	659.7	17.8%
Private Equity	7,933.1	7,724.6	208.5	2.7%
Emerging Manager Program	29.9	-	29.9	N/A
Real Return	<u>1,412.0</u>	<u>1,675.5</u>	<u>(263.5)</u>	<u>-15.7%</u>
TOTAL ALTERNATIVE INVESTMENTS	16,673.0	16,652.1	20.9	0.1%
UNALLOCATED CASH	<u>196.5</u>	<u>262.9</u>	<u>(66.4)</u>	<u>-25.3%</u>
TOTAL PSF(SBOE) INVESTMENTS	\$ 37,967.7	\$ 42,573.2	\$ (4,605.5)	-10.8%

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

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

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

Liquid Account Fair Value at August 31, 2022¹

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

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

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

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

Total PSF(SLB) Investments	\$13,842.0	\$8,687.2	\$5,154.8	59.3%
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¹ The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

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

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

The School District Bond Guarantee Program

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

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing

district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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

As of March 2023 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 7.36%. At March 20, 2023, there were 188 active open-enrollment charter schools in the State and there were 1,095 charter school campuses authorized under such charters, though as of such date, 190 of such campuses are not currently serving students for various reasons; therefore, there are 905 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a notice issued by the IRS (the "IRS Limit", with the limit in effect at any given time being the "Capacity Limit"). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 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. That limitation was a dynamic number that depended in large part on the market value of the Fund from time to time. 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 (a static number). 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 principal amount of guaranteed bonds outstanding.

The State Capacity Limit increased from \$135,449,634,408 on August 31, 2021 to \$148,789,725,175 on August 31, 2022 (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 March 1, 2023, the Act, as amended through the Regulatory Recodification, provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the "Capacity Reserve"). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program.

As of January 2023, the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site projected a remaining capacity under the IRS Limit of \$194.1 million out of the approximately \$117.3 billion of authorized capacity. Effective March 1, 2023, the change in the Capacity Reserve from 5% to 0.25%, as discussed above, freed up approximately \$5.9 billion in Guarantee Program

capacity. No representation is made as to how quickly the additional capacity from changing the Capacity Reserve will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. Additional capacity could become available for new applicants from time to time, through, among other measures, the principal retirement of outstanding guaranteed bonds. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE continues to seek changes to the existing federal tax law requirements regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. Such changes include regulatory modifications and implementation of federal legislation, and no assurances can be given as to the timing of the foregoing or the SBOE's success in that undertaking.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG Capacity.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.36% in March 2023. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At March 17, 2023, the Charter District Reserve Fund contained \$85,259,403, which represented approximately 2.18% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Infectious Disease Outbreak

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2018	\$ 33,860,358,647	\$ 44,074,197,940
2019	35,288,344,219	46,464,447,981
2020	36,642,000,738	46,764,059,745
2021	38,699,895,545	55,582,252,097
2022 ⁽²⁾	42,511,350,050	56,754,515,757

⁽¹⁾SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB.

The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

(2) At August 31, 2022, mineral assets, sovereign and other lands and discretionary internal investments, investments with external managers, and cash managed by the SLB had book values of approximately \$13.4 million, \$180.6 million, \$5,433.0 million, and \$1,257.5 million, respectively, and market values of approximately \$5,622.2 million, \$699.8 million, \$6,262.5 million, and \$1,257.52 million, respectively.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2018	\$79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929 ⁽²⁾

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

(2) At August 31, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$156,825,227,335, of which \$53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were \$103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of March 17, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of March 17, 2023, the amount of outstanding bond guarantees represented 89.46% of the Capacity Limit (which is currently the IRS Limit). March 17, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>
<u>8/31</u>						
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022 ⁽²⁾	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929

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

(2) At March 17, 2023 (based on unaudited data, which is subject to adjustment), there were \$104,953,879,666 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,296 school district issues, aggregating \$101,038,728,666 in principal amount and 99 charter district issues, aggregating \$3,915,151,000 in principal amount. At March 17, 2023 the projected guarantee capacity available was \$5,413,975,055 (based on unaudited data, which is subject to adjustment).

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

The following discussion is derived from the Annual Report for the year ended August 31, 2022, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2022, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2022, the Fund balance was \$56.8 billion, an increase of \$1.2 billion from the prior year. This increase is primarily due to overall net increases in value of the various asset classes in which the Fund is invested. During the year, the SBOE continued

implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2022, net of fees, were -6.80%, 6.54% and 7.33%, respectively, and the Liquid(SBOE) annual rate of return for the one-year and three-year periods ending August 31, 2022, net of fees, was -10.24% and -1.23% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 32.29%, 8.42%, and 7.40%, respectively.

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

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

PSF Returns Fiscal Year Ended 8-31-2022¹

Portfolio	Return	Benchmark Return ²
Total PSF(SBOE) Portfolio	(6.80)%	(6.37)%
Domestic Large Cap Equities(SBOE)	(11.08)	(11.23)
Domestic Small/Mid Cap Equities(SBOE)	(10.96)	(10.90)
International Equities(SBOE)	(19.72)	(19.52)
Emerging Market Equity(SBOE)	(22.85)	(21.80)
Fixed Income(SBOE)	(12.16)	(11.52)
Treasuries	(22.82)	(22.64)
Absolute Return(SBOE)	(0.55)	(5.66)
Real Estate(SBOE)	23.31	20.56
Private Equity(SBOE)	3.17	8.43
Real Return(SBOE)	2.98	3.09
Emerging Market Debt(SBOE)	(17.95)	(19.43)
Liquid Large Cap Equity(SBOE)	(10.39)	(11.23)
Liquid Small Cap Equity(SBOE)	(10.63)	(10.90)
Liquid International Equity(SBOE)	(19.34)	(19.52)
Liquid Short-Term Fixed Income(SBOE)	(4.27)	(4.01)
Liquid Core Bonds(SBOE)	(11.30)	(11.52)
Liquid TIPS(SBOE)	(5.78)	(5.98)
Liquid Transition Cash Reserves(SBOE)	1.65	0.38
Liquid Combined(SBOE)	(10.24)	(10.88)
PSF(SLB)	(32.29)	N/A

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2022.

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2022, the remaining commitments totaled approximately \$1.94 billion.

For fiscal year 2022, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.5 billion, a decrease of \$7.3 billion from fiscal year 2021 earnings of \$10.8 billion. The total change in the fair value of the Fund investments is consistent with the change in value of the markets in which those investments were made. In fiscal year 2022, revenues earned by the Fund included gains realized on the sale of land and real estate owned by the Fund; lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio and externally managed real assets investment funds; and other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 3.0% for the fiscal year ending August 31, 2022. This increase is primarily attributable to an increase in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund, as well as increases in operational costs.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2021 and 2022, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.7 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2021 and 2022 totaled \$600 and \$415 million, respectively.

At the end of the 2022 fiscal year, PSF assets guaranteed \$103.2 billion in bonds issued by 898 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,554 school district and charter district bond issues totaling \$239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$7.98 billion or 8.4%. The State Capacity Limit increased by \$13.3 billion, or 9.8%, during fiscal year 2022 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

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

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

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

PSF Continuing Disclosure Undertaking

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

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

Except as stated below, during the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

SEC Exemptive Relief

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

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